New World Order Series : ONE

ECONOMIC THEORY AND NEW WORLD ORDER

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To
Professor Raul Prebisch
Perennial Source of Inspiration

Introduction

The economic order established after the Second World War at Bretton Woods has broken down and the world trading system has been cumulating difficulties over the years. Yet we hear a lot about inter-dependence, one world and the emerging "global village".

While a consensus resolution supporting the concepts of New World Order was adopted by the sixth special session of the UN, various elements of the proposed programme were not accepted by the North. The sixth special session (April-May 1974) of the UN General Assembly, adopted a programme of action for NIEO, based on "Equity, sovereign equality, common interest and co-operation among all the States, irrespective of their social and economic system, which shall correct inequalities and redress existing injustices."

Looking back, we can say that the LDCs have raised the demand for changes in the working of the international institutions and various rules of the game, but it is not "about alternative versions of another development." What went wrong with the NIEO proposals—were they repulsed by Northern Stonewalling or was the whole design basically wrong?

In answering this question, we should try to assess the accuracy of the economic theory employed and the effects of its use for policy support. Really it is very difficult to break the hold of our traditional wisdom, as Lord Keynes, (1936), put it so well, "the difficulty lies, not in the new ideas, but escaping from the old ones which ramify, for those of us brought up, as most of us have been, into every corner of our minds."[1]

While no real progress has been made in the North-South negotiations since the Cancun Summit, recently Lance Taylor also described the Common Fund negotiations as a fiasco and resounding failure and "the judgement of other negotiations on

issues such as debts, monetary reform and various codes of conduct differs, only in degree but not in direction."[2]

There cannot be any progress until both the North and the South appreciate the need for reform; but from past experience, we must say that the learning curve in the past has been very flat. The present deadlock has made it extremely difficult to trade-off short-run losses for long-run gains. Yet the fact remains that on several issues, there is now more pragmatism, where previously it was not there at all.

Also relevant here are the attitudes that North and South have adopted towards the dialogue and the elements of strategy. It will be rather difficult to reform the attitudes and approaches without reforming the procedures. It seems clear that among the causes of failure on most of the issues involved, the bargaining system is perhaps the most important factor.

Wider Northern Perceptions

The traditional frame of analysis employed is based on the following postulates:

(*a*) The world economy, as run on more or less *laisez faire* basis, under the Bretton Woods institutions and the GATT, has done reasonably well and does not require any further global management;

(*b*) The most important influences on welfare of the North are those which are decided by North-South agreements; so also the growth in the North is determined by their own interactive policies, unaffected by Southern policies except the OPEC shocks;

(*c*) The South is not a sufficiently important component of world economy to play any significant role in decision making;

(*d*) The South should be handled as a separate issue for independent bargaining over distribution.

It seems that the reform of the world order is now deteriorating into a sort of permanent "crisis management," or "management of interdependence." Two basic difficulties here are as follows :

(*a*) Lack of agreed diagnosis from the beginning on whether specific faults in the rules of the game were themselves responsible for various troubles in the 1970s;
(*b*) Inadequate perception of the nature of international order and a confusion about the organisation and order.

Hence the needs, interests and special conditions of many LDCs (some of them still being colonies in the post-war days) were mostly ignored over the years. The system and its mechanisms did not improve the situation in the LDCs. On the contrary, their dependence on the metropolitan countries was perpetuated and even extended into new areas.

The experience of the 1970s showed that even the limited amount of 'colonial' type of growth transmission from North to South was no longer possible in the present context of worldwide stagflation and new protectionism that was responsible for wide disinvestment in several LDCs; resources were also diverted to various unproductive sectors.

Hence a new economic order is now necessary where the conditions and requirements of LDCs would be better looked after. With a view to serve these aims more effectively, the mechanisms and structure of world order will have to be altered.

Impact of the Crisis

The suggestion was widely discounted that the crisis in the North was chief obstacle to the LDCs' growth in general, in view of the fact that there had never been any 'automatic' transmission of growth from the centre to the periphery. So various policies for stimulating growth in the centres were no answer to the LDCs' problems.

While a distinction could be made between the nature of the crisis in the capitalist countries, the socialist countries and the LDCs, only one world economic crisis could be visualised that manifested itself in different ways in different groups of countries. Radicals like John Galtung argue that "if a change is wanted, very little can be obtained through negotiations with the holders of power. . . . .by using the existing system or rather by relying on them; the results are already given."[3]

There is another group of realists who argue that the LDC

governments themselves do not expect the North-South negotiations to achieve their stated goals. Rather they just want a process and an institutional setting so that they can contend that an unfair external environment is directly responsible for the various domestic failures faced by them.

In the LDCs, differentiation is also growing in view of various policy changes, political contentions, different growth rates, etc. This is pinpointed by recent flows of investment funds from South to North. Sometime back, World Bank President A.W. Clausen criticised the North-South model and divided the world into eight economic poles.

However, the North-South dichotomy reflects a political and psychological judgement about the best possible means of exerting leverage on the negotiation process. While the division of the world into North and South is not the most helpful simplification, it is true that due to coalition with several divergent interests, it is rather difficult to establish common positions. Hence several issues could be pursued more usefully as essentially South-South issues. Still the poorest among the LDCs see group unity as their only bargaining leverage.

We find that while economic interdependence between countries has grown, international co-operation between governments has failed miserably. As Paul Streeten put it recently "there has been no international co-operation in fighting world-wide crisis of unemployment, accompanied by inflation and sagging growth. National policies are being pursued in isolation; the balance of payment surpluses of a few countries are kicked around from country to country; Japan and Germany are exporting their unemployment and what each country does, often increases the difficulties of others."[4]

Now while the structure of the North-South system is being partially eroded by various recent developments, all this should be taken into consideration for reforms in the system. Still the linkages between these issues and the rest of NIEO programme are not sincerely appreciated. The most recent attempt to underline the mutuality of interests, *i.e.*, the report of the Brandt Commission, hardly had any effect on policy making.

G.K. Helleiner put it well, "there is emerging a relevant literature within the western tradition which, in effect, is at least partially legitimizing the Southern approach by applying

the tools of empirical analysis to particular commodity markets. These theoretical bits and pieces have not yet percolated through either to introductory western text books or to western policy matters. But their volume may already be great enough to permit the thought that dominant paradigm may yet shift to that of South, particularly as the debate shifts away from price stabilization issues and towards that of marketing, processing and distribution. At a minimum, it will, in future, be more difficult to generalise on basis of the traditional models."[5]

Insofar as the NIEO is about purely economic relations, there is scope for positive-sum games. But insofar as it is about 'national' power relations between sovereign States, with different aims, power is, by its very nature, a relative concept and what is at stake are zero-sum games.

A big problem for the third world is, not the absence of interests; but rather the complexity of interactions between diverse interests in times of slow growth of world economy. Still there are various common interests in the LDCs, which can provide a basis for collective actions. What is now required is the elaboration by the LDCs of a comprehensive strategy for strengthening their mutual co-operation in all aspects of their economic relations.

In an interdependent world, institutions have to be used as vehicles for achieving moral objectives. We face a dilemma here. While the LDCs insist on national sovereignty in the use of resources, the supporters in the developed world of larger transfers through ODA, SDR link, ICP, etc., emphasize the need for monitoring performance and other internal reforms to help the poor. We find attempts to resolve this dilemma in various moves towards the "global compact" or "the planetary bargain", which Mr. McNamara, the Aspen Institute, Mahbub Ul Huq, etc., have advocated.

In this volume, we have included select articles on the following dimensions of New World Order:

(*a*) Political economy of New World Order;
(*b*) Beyond slogan of South-South Cooperation;
(*c*) Global efforts towards new world order;
(*d*) Mutual interest paradigm and the Brandt report;

(*e*) Government surveillance *versus* market forces;
(*f*) Crisis of capitalism and the periphery;
(*g*) Long-term growth prospects.

In the first part, H.W. Singer calls it a case of redistributive justice that the complaints of the third world about the Bretton Woods system should today be so strongly concentrated on the problem of commodities and the creation of common fund. Now economic dependence is often described as neo-colonialism and in the sense of highly unequal distribution of wealth and power between countries is a clear fact of life today.

Paul Streeten in his article makes some suggestions as to how to construct a basis for more constructive responses to the call for a NIEO. Now-a-days we hear a good deal about inter-dependence, one world and the emerging 'global village'. But there has been no international co-operation in fighting worldwide crisis of unemployment, accompanied by inflation and sagging growth. All societies need for their self-regulation and for social control, a basis of moral principles. A belief in the harmony between self-interest and altruism is deep seated in Anglo-Saxon thought and action.

Helleiner tries to assess existing economic theory and its use by policy makers in North-South negotiations. More attention is devoted to trade in manufactures, primary commodity issues and international monetary issues. Problems considered include, weak theory, the employment of crude models by policy makers, paradigm clash and inadequate knowledge of facts.

Osvaldo Sunkel outlines the historical framework in which the existing crisis can be viewed, from the establishment of the outward-looking development pattern in the last century, to the process of increasing transnationalization in recent decades. Then he goes on to discuss the nature of the crisis today, both in the centre and in the periphery with a view to determine whether it is a transient and superficial phenomenon, or, on the contrary, is symptomatic of a prolonged upheaval. Some forecasts of the future of the world economy are also presented.

In the second part, S. Chakravarty in his article finds little reason to doubt that the world economic scenario turned sharply adverse in the 1970s. The basic problem remains that the emergence of inflationar expectations cannot be regarded

as an exogenous phenomenon. Also mainstream economic theory is seriously deficient in not attaching sufficient importance to the fact of monopolistic forms of organisation.

Samir Amin suggests that the failure of the so called NIEO and the disintegration of third world cannot be allowed to divert attention from the fact that the crisis persists. Thorough analysis of the situation requires the reinsertion of North-South negotiations within the global context of the world economic and political system and changes within it.

Lance Taylor reviews the theoretical failings of the southern position in the NIEO debates. Various suggestions are also offered regarding future issues and strategy, following the precepts of Raul Prebisch, Nurkse and Lewis. Faced with such prospects, most nations in the third-world may have to opt for internally oriented or as Nurkse put it, "balanced" growth strategy.

Kojima treats the NIEO as the whole philosophy and strategy which LDCs have pursued since the second world war. He underlines the importance of international "complementation" of national development processes, since to do so is the only way to offer meaningful dialogue between the South and the North.

In the third part, Karl P. Sauvant still finds a considerable gap between the declaration of a new order and the action programmes formulated to establish it. Since the Group of 77 is by no means homogeneous, group cohesiveness is not an easy matter to maintain. But given the dimensions and urgency of development task, there may be no viable alternative to global negotiations at the highest level.

Sunanda Sen suggests that despite the remedial proposals and their reiterations, national Bourgeois goals have continued to take precedence over the norms of behaviour stipulated under NIEO. She concludes that in the present balance of international economic strength, world-scale reform of international economic relations is not likely to take place.

Paul Streeten concludes that we are suffering from a lag of institutional adaptation to the technological and political reality of the last two decades, *i.e.*, 1965-85. The dispersal and fragmentation of four development functions have been missed

and damage has been inflicted as a result of the uncoordinated action by these nation States.

In the fourth part, A Maizels examines the validity of the mutual benefit argument in some policy areas and concludes that each of the issues under negotiations involves conflicts as well as mutuality of interests. The underlying conflict of interest is that institutional change, while it may result in economic benefits for the developed countries, would necessarily involve a significant reduction in the present degree of control exercised by these countries over the working of the international economic system.

Manmohan Singh underlines that the basic philosophy of NIEO is frankly interventionist. The establishment of NIEO calls for a reassessment of traditional hegemonic roles of major developed capitalist countries. As a result of the progress of the ideas, the intellectual defence of the established economic order has been greatly weakened.

Willy Brandt points out that global problems call for global solutions and the problems that engender interdependence require common solutions. Hardly any country is powerful enough economically and sufficiently independent as regards supplies of raw materials to be indifferent to reciprocity of interests, as has been proved by recent experience.

Han Singer holds that the process of recovery in industrial countries is by no means certain. Moreover, it cannot be relied upon to "trickle down" to the LDCs sufficiently fast and sufficiently effective. Also much of the damage has already been done and needs repair. This means that the long-term problem discussed in the Brandt report and the need for special action on behalf of the LDCs, will not disappear, even in the event of a partial recovery.

In the fifth part, Reginald Green feels that in respect to the South, the present impasse does not flow from absence of evidence of success nor of how such success could be built upon. To expect the North to act promptly and effectively would be highly imprudent. This is not to decry calls for such action, but to warn that no South economy should count on any such environmental improvement, unless and until it actually happens. A bitter fact should be accepted now that major restructuring at a high cost has already been undertaken,

especially during 1973-75 crisis. Even for the low-income countries, the cost has ranged from substantial to major.

Bognar warns that in recent decades, mankind is living through a dangerous development crisis, which can be seen in its most serious form in the economy. He also refers to several global problems, *e.g.*, the limitations of natural resources, threat to ecological systems, the equivocal nature of technology, development of third world and the economic interdependence in a period of high tensions. These global questions could be solved with well organised co-operation.

Ibrahim Shihata gives some personal reflections on the ongoing negotiations and finds that nothing substantial has happened to advance this process towards significant constructive results. This raises questions about real obstacles in the way of successful negotiations. He also refers to two specific experiences where North-South negotiations yielded some concrete results, *i.e.*, the negotiations for the agreement on International Fund for Agricultural Development (IFAD) and the Common Fund for Commodities.

In the sixth part, Raul Prebisch underlines that the conventional theories continue to disregard systematically the social structure and its constant modifications. Also what is more, the great prosperity of the centres spread quickly and uncontrollably to the Latin American periphery. But heart of the matter was poor income distribution which characterises Latin America and other developing countries. Now it is not a question simply of a new international economic order but of a new internal, ethical and social economic order.

Tamas Szentes urges the application of a holistic, global approach, imbibed with a real world consciousness and points to several strategic issues of establishing a genuinely new and democratic world order. The present crisis is really a structural and institutional crisis of the world economy as a whole, *i.e.*, a one world crisis which is deeply rooted in some fundamental contradictions of the contemporary world systems.

Hermann Sautter suggests that until the mid-seventies, the dependency theories could be relied upon to stimulate debate, but now-a-days, it seems to arouse little interest. For this, one reason is the fact that many of the central tenets of dependency

theories have since had to be qualified to some extent due to empirical studies by the proponents.

D. Lorenz in his article suggests that the theories of unequal exchange are based on a direct comparison of absolute labour inputs between countries. The unequal exchange theorems are based on direct diagonal comparison of national labour inputs in foreign trade specialization. In case of North-South trade, an additional competitive element emerges as a result of development differentials, *i.e.*, vertical competition of macro-economically interpreted low-wage trade.

In the last section, Andre Gunder Frank holds that the present recession is the fourth in the world economic crisis that may be said to have begun in 1967. The succession of recessions, the advance of inflation and the doubling of unemployed in the West between 1967 and the 1973-75 recessions and its doubling again from the latter recession to the present one, as well as restructuring of the world economy, arising from differential declines in productivity and consequent shifts in the political economic balance of power in the west, have posed insurmountable and still growing obstacles to the effectiveness of formulation and implementation of political economic policy at both the national and international levels.

Istvan Dobozi finds that the present international development strategy is not based on a realistic analysis of main long-term processes of the world economy. A number of mechanisms transmitted the economic slump of the advanced countries to the Third World in the 1980s. It is possible to draw the conclusion that sudden slow-down in the economic growth of the LDCs was essentially caused by unfavourable external factors.

Oleg Bogomolov holds that the mankind is today experiencing the most crucial period of its history. The difference in socio-economic systems and ideologies is not an insurmountable obstacle to joint solution of international problems. The policy of peaceful co-existence of States with different social systems, the shift from confrontation to *detente* favourably influenced the internationalization of world economic life especially during the 1970s. Despite the differences in interests and social systems, it is necessary to find joint optimal solutions for improving the functioning of the world economy.

S.J. Patel finds that the current economic crisis is building up highly disruptive pressures at the most vulnerable points. The combination of continued occurrence of economic crisis and emergence of industrial socialism has exercised profound influence on world society. The emergence of Third World on the world stage added another dimension to the process of West-centred social transition.

In the last article, Samir Amin holds that the capitalist mode of production encounters a profound inherent tendency towards stagnation. The bourgeoisies in the South are caught between nationalist desires and their submission to compradorization. The current crisis is manifested by the ungovernability of the system.

Before concluding we would like to dedicate this volume and the New World Order Series to Raul Prebisch who underlined the dynamics of the world economy and the interdependence between the industrial countries of the "Centre" and the LDCs of the "periphery".

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PART A

OVERVIEW : POLITICAL ECONOMY OF NEW WORLD ORDER

1

The New International Economic Order : An Overview

H. W. SINGER

The term 'New International Economic Order'—often referred to as N.I.E.O.—suggests two immediate thoughts : the first is related to 'New' and the second emphasises 'Order'.

The New *versus* the Old International Economic Order

If there is to be a *new* order, then presumably it must be contrasted with an *old* order, an O.I.E.O., namely the Bretton Woods system which was established at the end of World War II as a result of Anglo-American negotiations, with an absorbing interplay between the intellect of Keynes, subtly representing British interests, coming up against the hard facts of U.S. power and economic supremacy.

The Bretton Woods system certainly served the western industrial countries extremely well during the 25 years, 1946-71, an era of unprecedented progress and full employment without inflation. Here, in what may be called the 'First World', severe poverty almost disappeared. The tremendous increase in G.N.P. and technological power was accompanied by more equal internal income distribution, symbolised by the term 'Welfare State'. Furthermore, the growth of the various countries concerned was convergent—that is to say, those which were the

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richest at the beginning of the period, including the United States, Canada, the United Kingdom, Sweden and Switzerland, showed relatively slow growth, whereas the poorest and specifically those defeated and devastated during the war, such as Germany and Japan, showed the most rapid growth. It is a debatable point to what extent the big success story of these 25 years was due to the Bretton Woods system as such, or perhaps to an extremely farsighted and generous U.S. policy embodied in the Marshall Plan. Probably it was the combination of the two which produced the end-result.

Even for the Third World the Bretton Woods era was, in some ways, not a bad period, since many countries—and Korea is an outstanding example—then laid the foundations of their economic growth. The G.N.P. of the Third World as a whole increased by 5 to 6 per cent per annum, a growth rate very similar to that of the industrial countries—although, of course, a much higher percentage of this aggregate growth was swallowed up by population growth, so that growth *per capita* was less. The 'trickle-down' effect of growth from the industrial countries to the Third World was unmistakable and the flow of aid was considerable, particularly during the earlier part of this period, even if at no time comparable to the Marshall Plan. A number of developing countries clearly achieved the situation described by Walt W. Rostow in his famous image—so typical of the technological aura of the 1950s and early 1960s—of the 'take-off into self-sustained growth'.

However, there were great sources of weakness in the progress made by many Third-World countries during the Bretton Woods era. Above all, their growth—in sharp contrast to the industrial countries—was divergent, that is to say, the better-off tended to grow faster, leaving the poorer countries far behind. Thus the Third World began to split during this period into a group of what are now called 'the newly industrialising countries', typified by Brazil/Mexico in one hemisphere and by Korea/Taiwan/Singapore/Hong Kong in another. This left behind a group of poorest countries, a 'Fourth World', typified by India/Bangladesh/Indonesia and most of Africa.

The growth was also divergent in the internal sense, because contrary to what happened elsewhere it was accom-

panied by increased inequalities in income distribution. Thus, both because of divergence between and within countries, Third-World poverty did not show any signs of disappearing or even diminishing. Further intensified by the speeding-up of population growth due to the reduction in death rates—in itself a sign of the progress achieved—the absolute volume of world poverty was thus increasing quite rapidly during the Bretton Woods era.

Another source of weakness for the Third-World countries was the tendency for their terms of trade to deteriorate in the course of the Bretton Woods era. This had in fact been forecast initially, although it remained a contested view ; but certainly—with the exception of the temporary boom during the 1950—1 Korean War—the prices of primary commodities showed a distinct tendency to sag in relation to those of manufactured goods, to the great disadvantage of the Third World.

Fundamentally perhaps even more important, was the rapid development of technology in the direction of greater sophistication and capital requirements, making the technological gap progressively more unbridgeable.

There were thus plenty of reasons for Third-World countries to be dissatisfied with the Bretton Woods order. As regards the deteriorating terms of trade, it is of special interest to note that in the original Keynesian conception the system was to rest on three pillars : a World Central Bank (realised in the attenuated form of the International Monetary Fund), a World Development Agency (realised in the attenuated form of the World Bank), and an International Trade Organisation. The Charter of the latter was negotiated in Havana during 1947, but unfortunately the organisation was never created, due to the failure of the U.S. Congress to ratify the proposals. It is, therefore, a case of retributive justice that the complaints of the Third World about the Bretton Woods system should today be so strongly concentrated on the problem of commodities, and the creation of the Common Fund.

A New International Economic Order : Order versus Disorder

There is another way of reading the demands for New

International Economic Order, with the accent on the last word. The Bretton Woods system has been dated above as ruling for 25 years, from 1946 to 1971. Since then, however, it has visibly disintegrated, and only remnants now remain ; this collapse is often associated with the O.P.E.C. oil embargo and quadrupling of oil prices of late 1973. But while that action may well be considered as the last nail in its coffin, one of the chief elements of Bretton Woods—the free convertibility of the U.S. dollar as the world's main reserve currency into gold at a fixed low price—was suspended as early as 1971. That was already a clear signal that the system was no longer working.

This was then followed, in 1972, by the world food crisis, resulting from simultaneous crop failures in Russia, India, Sahelian Africa, and poor or moderate production elsewhere. This meant that the big surplus stocks of food—which had also been an essential part of the Bretton Woods system, particularly in view of the increasing food dependency of the Third World and the willingness of the U.S. to give food aid under Public Law 480—were dwindling away rapidly, and indeed the prices of cereals quadrupled like oil. We need not analyse the reasons for the collapse of the system—the present symptoms are clear: a lack of confidence in the main reserve currency, and an unwillingness to hold dollars because of the U.S. balance-of-payments deficit.

So the current demand for a N.I.E.O. must be contrasted not with an O.I.E.O., but with a present state of disorder. For the industrial countries this has expressed itself in a major recession, a slowing-down of growth, and rising unemployment combined with speeded-up inflation. So-called 'stagflation' is an entirely new experience, because the foundation of the Bretton Woods system was a trade-off between unemployment and inflation. At the same time, the growth rates of the Third World, including even the O.P.E.C. countries, have also slowed down in the last few years while for the poorest oil importers—the N.O.P.E.C. countries—growth has almost ceased. This has created a fresh situation, namely a mutual interest in the re-establishment of economic order. Whether this is defined as something really 'new', or a return to the kind of economic order that existed previously, is perhaps

more a matter of semantics and political preference than of reality.

It has been estimated that the western industrial countries alone are now losing something like $400 billion per annum as a result of 'stagflation'—that is, the difference between what would be produced each year today if the steady growth of the Bretton Woods era had continued, as compared with what is in fact being produced. A restoration of those happier conditions would, therefore, be worth a great deal to the industrial countries, and it would amply pay for many concessions now demanded as part the N.I.E.O. This is so particularly, if we add to the annual $400 billion loss a similar sum now spent on armaments all over the world, based on the assumption that a return to economic prosperity through global agreement would also be accompanied by a reduction of political tensions and hence a measure of disarmament. Compared with such sums the actual cost of many of the N.I.E.O. measures under debate—for example, the 0.7 per cent U.N. aid target, or the financing of the Common Fund, or the cost of higher commodity prices to consumers—would appear almost ridiculously small.

This is not to say that mutual interests are limited to the broad objective of restoring an economic world order combined with a reduction or, if possible, the abolition of armament expenditures. Many of the individual measures now under debate, such as the stabilisation of commodity prices, the better control of multi-national corporations, etcetera, can also be arranged in such a way as to benefit all countries. The point here is that the creation of a new international economic order in place of the present disorder represents a broad overall mutual interest. It is suggested increasingly in the industrial countries that the development of the poorer nations, and the reduction of world poverty, could be the 'engine of growth' for the world as a whole. This would match the realisation of the New Deal of President Franklin D. Roosevelt and the New Economics of John Maynard Keynes in the early 1930s, that the lack of buying power of the unemployed offered the best chance of pump-priming the economy as a whole.

Unfortunately, the clear existence of a major mutual interest is not sufficient to guarantee the success of N.I.E.O.

negotiations. This is so for two reasons : (1) As already explained, one can agree that the present disorder is deplorable and that it hurts us all, while disagreeing about what should be put in its place, or even how the problem should be tackled; unfortunately, there is not even a consensus on the main symptoms of what is wrong. (2) The removal of the present disorder is not the only objective of the N.I.E.O. demands. These also include an elimination or reduction of perceived inequities and inequalities in the system, and the Third World may, in fact, give more prominence to this side of the equation.

Inequities and Inequalities between Countries

Many of the poorer countries, being newly independent, are filled with memories of colonial relationships, and a fierce desire for real independence. So it is not surprising that major inequalities are prominent in the current discussions. Economic dependence is now often described as neo-colonialism and, in the sense of a highly unequal distribution of wealth and power between countries, is a clear fact of life today. The industrial North, with 30 per cent of the world's population, has 80 per cent of its income and wealth. This tremendous imbalance is true as regards (1) military power and the concentration of armaments production; (2) financial and economic power, notably if measured by G.N.P. *per capita*; (3) technological power, symbolised by the fact that 98 per cent of all R and D expenditures in this field are in the developed countries ; (4) industrial power, with 90 per cent of industries in the North; (5) commercial power, with the bulk of trade taking place among the industrial countries; (6) the power of the multi-national corporations radiating from the western nations; and even (7) food power, with the United States and Canada emerging as the granaries of the world.

There is one great exception, and it is perhaps for this reason that the assertion of oil power by O.P.E.C. found such strong and enthusiastic support in the Third World, even though many of the oil importers there were perhaps even more deeply hurt by the higher prices than the industrial North. It was the hope of many developing countries that this might be the big break-through for the assertion of commodity power in general,

and the related expectation that the member States of O.P.E.C. might become the protagonists of the Third World in its other demands, which accounted for this enthusiastic support. In both these directions the realistic foundation is still in doubt. With minor exceptions, the power shift in the case of oil has not been widely repeated for primary commodities in general—and, in any case, some of the industrial countries are themselves major producers of primary commodities, and can also use their technological power to find substitutes, to recycle, etcetera. Nor is it certain whether the richer members of O.P.E.C. will conceive their role as being protagonists of the poorest countries, or whether they will simply be adopted as members of the rich man's club. Politically, the support of the poorer countries, and the Group of 77 as a whole, is very important to the member-States of O.P.E.C., but their policies on prices, as well as on cycling their tremendous surpluses, seem more to fit into the pattern of joining the richer world.

The Third World also feels strongly about the power inequalities that exist concerning the control of the major international organisations, especially the World Bank and the I.M.F., arising mainly from their dependence on voluntary contributions or on permission to use the capital markets of the rich countries, and embodied in the voting system of roughly one dollar one vote. The Third World is in favour of 'one country one vote', such as obtains in the U.N. General Assembly—albeit not in the Security Council, with its veto. There are those who wonder whether the right system might not be 'one person one vote', although this would also give the developing countries a built-in majority, as well as a veıy strong position to China and India.

It is true that some 'dependent' relationships are not always as clear-cut as might appear at first sight. Thus, the growing indebtedness of the poorer countries may look like a clear expression of dependence, but this also gives the debtors some leverage over the creditors : the disorder in the world economy would become much worse if there were widespread bankruptcies or repudiations of debt. Similarly, the big transnational corporations may dominate the industrial scene in many developing countries, but they in turn also depend on local goodwill for their effective operation, and the fear of nationalisation

without proper compensation provides leverage to the host governments.

As already mentioned, in the current discussion it is not so much a workable new order, or the question of internal national differences, that is emphasised, but rather inequalities between countries, and these often appear to be a 'zero-sum game'. You cannot give the Third World greater weight in the I.M.F. without reducing the voting power of the industrial countries. You cannot increase the terms of trade of primary commodities relative to manufactures without lowering them in the opposite direction. It is for this reason that the emphasis on inequality between countries gives the N.I.E.O. debate its note of acerbity, and presents a formidable obstacle to making progress in the negotiations.

However, it does not follow that *all* the specific demands made to reduce inequalities between countries represent a real zero-sum game. On the contrary, it becomes more and more apparent that a wide range of issues could actually be settled to the advantage of the industrial as well as of the developing countries. For example, better terms of trade for primary commodities can be in the interest of the industrial countries, if they lead to greater investment in creating more sources and security of supply. The removal of instability in the prices of primary commodities is as much in the interest of consumers as of producers. Better access for manufactured imports from the Third World is in the interest, not only of the consumers in industrialised countries, but also of their governments struggling to control inflation.

If the developing countries acquired greater technological capacity to solve their own problems by methods more appropriate to their factor endowment—*e.g.*, by more labour-intensive or smaller-scale technologies—this could be of considerable beneficial application in the industrial countries themselves. Or again, if the developing countries increased their trade with each other to remove the present anomaly whereby one-third of mankind in the industrial countries does 80 per cent of world trade with itself, it is difficult to see how the major interests of the latter could be hurt by such a natural development. Moreover, the long-term position of the richer countries is best safeguarded in a world in which the poorer feel that they have a real

opportunity of improving their situation. The alternative is a sharply divided world of seething discontent among the majority of countries—especially if, in the not-too-distant future, many of them will be equipped with nuclear weapons.

Inequities and Inequalities within Countries

On the whole, the empirical evidence is fairly strong, although far from universal, that the development of the Third World under the Bretton Woods system tended to be divergent also within countries. In India, for example, which has been well researched and documented, the balance of evidence seems to be that inequality of income distribution has increased : (1) in the rural areas, (2) in the urban areas, (3) between those two sectors, and (4) as regards a shift of G.N.P. from the more equal rural to the more unequal urban areas.

The reason for this tendency towards internal inequalities within Third-World countries has been analysed elsewhere, and helps to explain the ongoing revisions in development thinking. Here we are concerned with the problem of internal income distribution, and the resulting failure of poverty to diminish in line with economic growth, as an element in the N.I.E.O. debate. There, the issue has been taken up more passionately by the industrial countries, who seem to prefer to discuss the relief of world poverty to the removal of inequalities between countries. For obvious reasons, humanitarian sentiments in the industrial countries create a public opinion more favourable to the relief of unmistakable poverty and distress abroad, rather than the removal of structural imbalances in the world trading or financial system now operating against the Third World.

On their part, the developing countries tend to be deeply suspicious of the tendency of western governments to talk about poverty and human needs instead of say, a Common Fund or voting rights in the I.M.F. They consider this preference of the West partly as an intervention in their own internal affairs, and partly as a device to avoid the discussion of really important questions which are much more awkward for the industrial

countries. The concern with basic needs has, for this reason, been described as 'N.I.E.O. neo-colonialism'.

The industrial countries on their part criticise the reluctance and unwillingness of Third-World countries to discuss the issue of poverty within their borders, and consider this as a device by their governments to avoid the discussion of issues of domestic policies which are awkward for *them*. They suspect many regimes of seeking external scapegoats in order to divert attention away from their own domestic inefficiencies, elitism, and lack of concern for their own poor.

There is thus plenty of room for misunderstanding and friction on both sides. This is further intensified by a tendency on the part of industrial countries to broaden the discussion further by including human rights and democratic participation in decision-making as part of basic needs. The Third-World countries cannot avoid discussion of world poverty as an immediate issue, but they certainly seem entitled to insist that this should not be the only issue on the agenda of the N.I.E.O negotiations.

Fortunately, the concern for inequities both among and within countries tends to overlap more and more as we move down the development ladder towards those who comprise the Fourth World, because they are so poor that even with perfectly equal internal income distribution, mass poverty would still be prevalent. Hence, there is relatively easy agreement in the N.I.E.O. debate on the need for special action on behalf of the so-called 'least-developed countries'. Another possible area of compromise between those who wish to debate inequities between countries and those who wish to emphasise world poverty, is by concentrating attention on rural development, and on the landless and rural proletariat.

Even reforms in the pricing of primary commodities relative to manufactures, or in their better access to the markets of industrial countries, could be reconciled with an emphasis on poverty by concentrating on those primary commodities which are produced in the poorest countries, at the same time seeing to it that the benefits penetrate to the small producer. A good example would be the Stabex scheme in the Lomé Agreement between the E.E.C. and the associated African, Caribbean, and Pacific countries : this scheme of financial compensation for

unexpected drops in export proceeds has special provisions for the poorer of the associated countries, who enjoy easier access to the benefits of this scheme and also do not have to repay the sums distributed under it. The recent British action to cancel all outstanding government debts of countries with an income *per capita* below $280, can also be considered as an example of reconciling an issue essentially in the field of financial relations with an attack on world poverty.

Summary and Conclusion

So, with goodwill, packages could be prepared which allow for simultaneous dicussion and action in relation to the three broad areas which have been distinguished above: (1) the restoration of international order after the collapse of the Bretton Woods system; (2) the removal of inequalities between countries; and (3) the reduction of world poverty. However, the fact that all these issues, and possibly others, are at present simultaneously discussed and subsumed under the title of N.I.E.O., is a source of considerable confusion and a great obstacle to productive agreement. It is all too easy for misunderstandings to arise, because governments talk about different things when they meet, and give different priorities to them in debate.

The first requirement would be to bring out more clearly the various issues at stake and the mutuality of interests involved. Such has been the purpose of this article. It should then be possible, as the next step, to draw up priorities for different groups of countries in relation to the three areas already mentioned, and any others which are agreed to require action. In the case of the industrial countries, which have benefited so conspicuously and one-sidedly in the past, there would also be a need to define their own interests in a broader and longer-term sense.

The outcome at present is still in suspense. There are some signs of progress notably on questions of debt and the Common Fund—but one conspicuous obstacle to agreement remains. The developing countries believe that the only way of reaching worthwhile agreement and obtaining significant concessions is to maintain their solidarity, as exemplified by the Group of

77. But when their interests diverge—as they clearly do within this heterogeneous amalgamation— the best and perhaps the only way to maintain solidarity is to present a long shopping list of demands in which the interests of *all* countries in the Group are simply added together, and to be suspicious of any attempt to pick out individual items for discussion. Yet negotiation must focus on concrete things, while at the same time within a broader context.

The industrial countries, on the other hand, have adopted the opposite strategy of never yet putting forward their own full version of a N.I.E.O. Instead, they confine themselves to the rejection or amendment of specific points in the shopping list of the Group of 77. Also, by failing quite often to agree amongst themselves, they make discussion and progress more difficult. Thanks to the efforts of the O.E.C.D. and the E.E.C., there is some progress towards formulating common positions now. But much still remains to be done.

It is in all our interests that a satisfactory wide agreement should be reached so that the world economy can enter into an era of practical and orderly progress.

2

Approaches to a New International Economic Order

PAUL STREETEN

1. The Lag of Institutions behind Technology

I should like to make a few suggestions as to how to construct a basis for more imaginative and constructive response to the call for a New International Economic Order (NIEO) than those that have been forthcoming in the past. I regard the main problem as a lag between appropriate global institutions and the evolution of the global reality. As Frances Stewart points out in her paper, 'Framework for international financial co-operation', an efficient world order depends on the co-ordination of three or four functions: first, the generation of balance of payments surpluses; second, the existence of financial institutions to invest these surpluses in developing countries; third, the existence of industries that produce and sell capital goods needed for development, on which the money is spent; and fourth, the military power to back the economic power derived from the previous three functions. Until about 1970 these four functions had been combined and co-ordinated in one dominant country. Until 1914 this country was Great Britain, which imposed upon the world the *Pax Britannica*. After the Second World War, for a quarter of a century, it was the USA which imposed the *Pax Americana*. But since 1970 the functions have

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been fragmented and dispersed. The single dominant power has been replaced by a pluralism without co-ordination. The surpluses in the balance of payments are generated by a handful of capital surplus OPEC countries, and occasionally by Germany and Japan. The financial institutions are still largely in London and New York, but increasingly also in Hong Kong, Singapore and Beirut. The industries supplying capital goods at competitive prices are in some OECD countries, such as Germany and Japan. And military power in some cases seems to weaken economic power. The USA and the Soviet Union, while militarily strong, have suffered economically from the high level of their arms expenditure, while Germany and Japan have profited from low levels of defence spending. The new task consists in creating institutions that co-ordinate the four functions so that the financial surpluses of the OPEC countries, the productive capacity of the OECD countries and the underutilized labour surpluses of the developing countries can be brought together for the purpose of development, instead of lying idle and provoking mutually destructive responses.

We hear nowadays a good deal about interdependence, one world and the emerging global village. The international dissemination of cultural influences has increased enormously. Its ultimate cause is the advance of technologies in transport and electronic communications and the growing urbanization. Popular songs, styles in dress and hair styles, attitudes to divorce, abortion, homosexuality, drugs, even crimes, are spreading rapidly across the globe. While in previous ages the common culture was confined to a thin layer of the upper class, today it has reached the mass culture in many countries. In the huge underdeveloped regions of the South, however, the masses of people live in extreme poverty and culture isolation, though a small upper class has become part of the international culture. Even among the elite, there are now moves to assert indigenous cultural values and to establish national and ethnic identities. It it partly a reaction against the rapid spread of the mass culture of the West.

International relations have grown not only in the cultural but also in the economic sphere. This growth is usually measured by the rapid growth of world trade in the last two or three decades, a growth that was substantially faster than the growth

of GNP, so that the ratio of exports to GNP has also grown. World trade has increased from over $ 100 billion in 1960 to over $1 trillion in 1977, and the ratio of exports to GNP has risen from 13.7% in 1960 to 21.8% in 1976.

Taking a longer historical perspective, the ratio of trade to GNP for the main industrial countries is not much higher now than it was in 1913.[1] But there has been a large increase in the trade share of the private sector. The aggregate ratio conceals this because of the large increase in the public sector and the relative rise in prices of those services that are not internationally traded.

It is useful to draw a distinction between integration and interdependence.[2] International integration was probably greater in the 19th century, when national governments adhered to the gold standard, fixed exchange rates, and balanced budgets, than today, when domestic policy has set up for employment, growth, price stability, income distribution, and regional policy, among other objectives, while at the same time rejecting the constraints which integrated the world internationally.[3] Greater economic interdependence consists in greater international mobility and substitutability of goods, services and capital, and greater mobility across frontiers of management and technology.

But in trade, as in culture, the poorest countries did not share in this expansion. The share of the low-income countries, excluding the petroleum-exporting countries, fell from 3.6% in 1960 to 2.2% in 1970, and to 1.5% in 1977. Of the total exports of the industrial countries 17.3% went to the non-oil-exporting developing countries in 1970, but only 15.8% in 1977.[4] The notion that we have become one interdependent world has, therefore, to be qualified in at least three respects. First, much of the growth of trade is a return to pre-1914 situation which has been disrupted by two world wars and a severe depression. Second, the poorest countries and the poorest people have been left out of this growing cultural and trade inter-dependence (though they are dependent on aid flows). A third aspect in which it has to be qualified is discussed latter on p. 35. It refers to the importance of the trade volumes and the losses that would be suffered if the trade were eliminated. The importance is illustrated by a thought experiment suggested by Sir

Arthur Lewis : how much would one group of countries, developing or developed, lose, if the other group were to sink under the sea?

While cultural dissemination and economic interdependence between countries have grown, international co-operation between governments has lagged and in some cases grossly failed. The gap of our times is not so much, as is often said, that between science and morality, as that between our soaring technological imagination and our inert institutional imagination. While our scientific and technological imagination has leaped ahead, putting man on the moon, deciphering the genetic code, discovering new subatomic worlds, and probing the recesses of inner space, and the farthest reaches of outer of space, our institutional and social imagination has lagged inertly behind. The most flagrant failure of international co-operation is the arms race and the $450 billion annually devoted to military expenditures, which has increased violence in the world.

International co-operation for meeting the impending energy crisis has also failed. There is a need for a global energy programme for conservation and exploration of alternative sources of energy.

National policies to fight the evils of pollution have been successfully designed, but the solution of problems of global pollution (like that of the oceans or air across national boundaries) have been much less effective. The same is true of policies to prevent excessive depletion of non-renewable resources.

There has been almost no international co-operation in fighting the world-wide crisis of unemployment, accompained by inflation and sagging growth. National policies are being pursued in isolation, the balance-of-payments surpluses of a few countries are kicked around from country to country, Japan and Germeny are exporting their unemployment, and what each country does often increases the difficulties of others. There is no exchange of information on investment plans, hence we lurch from excess capacity to shortages in steel, fertilizers and shipbuilding.

International co-operation for development—our main concern here—has also lagged behind the challenge to eradicate world poverty. Insufficient attention has been paid by analysts to this discordance between the (partial) success of interdepen-

dence and our failure to co-operate and use it for our joint benefits.

The failure in co-operation has been accompained by a growth of intergovernmental organizations, forums and conferences charged with tackling these issues. The call for the exercise of our institutional imagination must not be confused with its opposite: the growth of bureaucracies that oppose new ideas and only spawn obstructionist bureaucrats. Even though practical solutions are proposed, the resistance, often on some minor point, by one or two governments, prevents joint action. This resistance to global action on the part of governments is in stark contrast to the successful co-ordination of international action by big business—by the transnational corporations and by the banks in the Eurocurrency market. We have the framework for intergovernmental action, but it is largely unused.

There are two opposite forces at work. National integration has contributed to international disintegration. The rejection of the gold standard, of fixed exchange rates, and of balanced budgets has liberated national policy to pursue a growing range of national objectives, but has contributed to international disintegration. The rejection of irrational constraints by each State has produced world-wide irrationality. At the same time, the integration of the upper classes of developing countries into the international system has contributed to national dualism, national division and national disintegration in some developing countries. Hence the call for 'delinking' and the assertion of a national identity, based on indigenous values.

There are, however, some instances of successful intergovernmental co-operation, usually in specialized, technical fields: The Universal Postal Union (more than 100 years old), the International Telecommunication Union, the International Civil Aviation Organization and the World Meteorological Organization are examples of outstanding successes in international co-operation. The World Health Organization and UNICEF have also been successful. Stressing the technical, non-political aspects of co-operation helps to prevent issues from becoming politicized. Functional solutions at the global level work. I shall return to this theme and the lessons to be learned at the end of this Chapter.

2. Origins of the Call for an NIEO

The developing countries' call for an NIEO has many diverse sources, some going far back in history. At the root of this call lies the dissatisfaction with the old order which, it is felt, contains systematic biases perpetuating inequalities in power, wealth and incomes and impeding the development efforts of the developing countries. Three recent phenomena can be singled out that gave the demand for an NIEO special impetus : the disappointment with aid, the disappointment with political independence, and the success of OPEC.

Development aid, on which so many hopes had been pinned in the 1950s and early 1960s, after a vigorous beginning, partly inspired by the Cold War, was regarded as inadequate in amount and poor in quality. A target for official development assistance to the developing countries of 0.7% of the gross national product of the developed countries had been set up. But the net official development assistance given by the DAC members fell from 0.42 in 1964—1966 to 0.35 in 1978. Intergovernmental aid negotiations led to pressures, frictions and acrimony. Although it was correctly seen that for aid contributions to be effective a country's whole development programme had to be scrutinized, developing countries found it intolerable that donors who contributed only 1—2% of the national income of the recipients should meddle in their economic and political affairs. Performance criteria and political, as well as economic, strings produced tensions and recriminations, which led to a plea for a 'quiet style in aid'. By this was meant a transfer of resources that would be automatic or semi-automatic, hidden, or at least unconditional. The inefficiencies and inequities (as a result of the capricious impact) of commodity agreements, trade preferences, debt relief, SDR links, etc., were regarded as a price worth paying for a hoped-for larger volume of transfers and a defusing of diplomatic tensions.

The second source of the call for the automatic, concealed, unconditional transfers of the NIEO is the disappointment with political independence that has not produced the hoped-for economic independence. True, most Latin American countries have been independent for a long time, but it is precisely from there that the doctrine of *dependencia*

has emerged. It explains the demand for 'sovereignty over resources' and the hostility to some features of the transnational corporations and, more generally, to the international rules of the game as they had evolved after the war.

The third cause is the success of OPEC (and a few other mineral exporters), which appeared to offer an alterative to the apeal to the conscience of the rich. This success was accompanied by a change to a sellers' market and to world shortages of food and raw materials. These events encouraged developing countries to explore the scope for similar actions on other fronts, to emphasize joint bargaining, the use of 'commodity power', and the exercise of power in other areas, such as the treatment of transnationals.

3. Interpretations of the NIEO

The NIEO means different things to different people. Under its banner, a great variety of interpretations have been gathered. Three distinctions are useful in clarifying some of the ambiguities.

Some have interpreted the NIEO as a demand for exemptions from established rules. Non-reciprocal preferences for manufactured exports, debt relief, more concessionary aid fall under this heading. Others have interpreted the NIEO as a radical change in the rules.

A second distinction is between those who seek a few more concessions from the developed countries, more aid, more trade preferences, contributions to commodity agreements, better access to capital markets, cheaper technology transfer, debt relief, etc., and those who want fundamental structural change, in the form of new institutions and a shift in power relations.

A third distinction is that between those who interpret the NIEO as being essentially about rules and restraints, like those laid down at Bretton Woods and the GATT, whether the demand is for exemptions from old or for new rules, and those who interpret the restructuring to refer to the totality of economic, political and even cultural relations. This second interpretation sees in the post-colonial power structure the continuation of domination and dependence, caused not only by rules,

procedures and institutions designed by the powerful rich countries but also by numerous other factors, such as the thrust of science and technology, the priorities in research and development, the cumulative nature of gains, the structure of markets, the influence emanating from the mass media, the educational systems and the values they impart etc.

The discussion about appropriate rules for international economic relations has suffered from a long-standing confusion. It is the confusion between *uniform* (sometimes also called *general*) principles or rules (the opposite of specific ones, and therefore, necessarily simple) and *universal* principles or rules (which may be highly specific and complicated, provided that they contain no uneliminable reference to individual cases). Further confusion is caused if a third characteristic of rules is added : *inflexibility* over time, and confused with either uniformity or universality. A rule is capable of being *altered*, though it remains either uniform, *i.e.*, simple, or universal, *i.e.*, may have a lot of 'exceptions' written into it. The 'equal' treatment of unequals is not a principle of justice, and a general rule commanding it is an unjust rule. In order to prevent partiality and partisanship, rules have to be universal, *i.e.*, not contain references to individual cases. They may, and indeed should not be uniform. They should pay attention to the varying characteristics and circumstances of different countries.

Those who charge the developing countries with asking for exemptions from rules are guilty of this confusion between *uniform* and *universal* rules. Thus a differentiated system of multi-tier preferences according to the level of development of the exporting countries, may be best and most just for a group of trading countries at different stages of development. A fair system of rules also points to the differentiation in responsibilities and rights according to circumstances. Middle—income countries would not have the responsibility to give aid, but neither would they receive it. They would not have to give trade preferences, but neither would they receive them. Even finer differentiation would be possible. A country like Saudi Arabia might be asked to contribute to loans because of its foreign exchange earnings, and to aid because of its income per head, but might receive trade preferences, because of its low level of industrialization. The 0.7% aid target would be replaced by a

system in which those below a certain income per head are exempted, and the percentage target rises with income per head.

There is, of course, a practical and tactical case for *simple* rules which might overrule the case in fairness for universal (though complex) rules : they are less open to abuse and easier to police. And there may be a tactical case for uniform rules : they may be easier to negotiate. It is for such pragmatic reasons rather than on theoretical grounds that one may advocate that rules should not be too complex, and should not be changed too often.[5]

Any specific proposals, like non-reciprocity in trade concessions, or trade preferences would, of course, have to be examined on their merits. But the distinction between 'exemption from rules' and 'drawing up new rules' is logically untenable, to the extent to which the call for exemption is really a call for a set of *universal* rules that pays attention to the different characteristics and circumstances of different countries, just an income tax allowances for dependants or lower rates on earned than on unearned income, are not 'exceptions' but re-reflect our notions of fairness.

Those who are concerned with changing the rules of international relations are aiming partly at removing biases in the present rules, partly at the exercise of countervailing power where at present the distribution of power is felt to be unequal, and partly at counteracting biases that arise not from rules but from the nature of economic processes, such as the cumulative nature of gains accruing to those who already have more resources, and the cumulative damage inflicted on those who have initially relatively little (polarization or backwash effects).

In so far as the NIEO is about strictly economic relations, there is scope for positive-sum games. But in so far as it is about national power relations between sovereign States with different aims, power is by its very nature a *relative* concept, and what is at stake are zero-sum games. Greater participation in the councils of the world and corrections in the biases of the international power distribution are bound to diminish the power of the industrialized countries.

It is part of the weakness of the poor countries and of the

syndrome of underdevelopment that they have not succeeded in articulating these pleas altogether convincingly. An unsympathetic approach can always find faults and criticize specific proposals and the manner in which they are presented. A more imaginative approach would attempt to understand the underlying grievances, even though often badly expressed and poorly translated into concrete proposals. An entirely adequate approach would require a well-staffed, highly qualified secretariat of the Third World, which would muster the evidence, prepare the case for international negotiations, and propose feasible reforms, worked out in detail.

4. Heterogeneity or Homogeneity of the Third World?

The NIEO has been acclaimed by *all* developing countries, but the diversity of their interests is reflected in the long list of the UNCTAD Agenda, by the strains caused by specific proposals, such as debt relief, by the inconsistency of some of the targets, and by the OPEC oil price rise. Concern with reforming the international system has, at least in the rhetoric, been closely linked with concern for the world's poor. But the poor are largely in what is sometimes called the Fourth World: South Asia, sub-Saharan Africa and a few islands. Their need is mainly for additional financial and technical assistance. The more advanced countries of the Third World need better access to capital markets, to markets for their manufactured export and to modern technology.

The cohension between these two groups of countries has been maintained largely because OPEC has used its petropower to press for other reforms on the agenda, such as the inclusion of non-energy issues in the Paris Conference on International Economic Co-operation (CIEC), initially intended to be devoted solely to energy. It has succeeded in the liberalization of IMF credits, and the liberalization of the compensatory finance facility. OPEC has also given substantial aid.

The cohension of the Third World may also be threatened by the formation of North-South blocs: Europe forging special ties with Africa through Lomé, Japan (and Australia and New Zealand) with East Asia through ASEAN, and some non-oil Arab countries with the Arab members of OPEC. It would not

be surprising if, in default of global progress, developing countries were to attempt to strike bargains with specific developed countries, or groups of them. Some of the weaker and poorer countries are bound to suffer, inequalities to be increased, and the cry of neocolonialism to be raised again. Such fragmentation of the world into regional blocs is not in the interest of development or of the developed countries.

In spite of heterogeneity and diversity of interests, there are strong common interests in the Third World, which can provide a basis for collective action. These countries are, by and large, poorer than the developed countries (the existence of borderline cases with small populations does not destroy the distinction), many have been colonies and they benefit and suffer from the impulses propagated by the advanced, industrial countries in similar ways.[6]

In answering the question whether homogeneity or heterogeneity is stronger among the countries of the so-called Third World, we would have to begin by listing criteria for a typology of countries, relevant to the dimensions of what might constitute the 'Third World'. These might include income per head, growth rates, inflation rates, indicators of economic structure (such a proportion of the labour force in agriculture, trade ratios), human and social indicators (life expectancy, infant mortality, literacy), water supply, indicators of inequality, population growth, indicators of dependence such as concentration of exports by commodities and by destination, statistics of brain drain, political indicators, etc. If we find that on the whole the same countries cluster round each end of these scales, the division will be found to make sense. If, on the other hand, groupings cut across the conventional North-South division, we may have to revise our typology and the notion of a homogeneous 'Third World'.

But it may be both tactically wiser and in the service of truth to acknowledge that many problems of the developing countries are not just the problems of a block, but are common to us all: there are rich and poor among the OECD countries, there are relations of dominance and dependence between developed countries, and even between regions within one country, there are biases and imperfections in the system of international relations that discriminate against members of the First World

and there are important interest alignments that cut across national frontiers. On the other hand, many of the objectionable features of the relations between the industrial and the developing countries are replicated in those among the stronger and weaker developing countries. If 'delinking' of the Third World were to become a reality, much the same phenomena would arise in the relations between Brazil and Bolivia as now arise in the relations between the USA and Latin America as a whole.

Moreover, there is another danger for the fate of the poor within what has been called the 'trade union of the Third World'. This danger is that, as in the original trade union movement, the benefits from joint action may be reaped by the stronger members, who wield the power, and the weakest and poorest get left out.

For reasons such as these, emphasis on the homogeneity of the Third World may be both mistaken and misguided, and an appeal to universal principles and globally shared problems may be wiser.

5. Criticisms of the NIEO

There has been no shortage of criticisms of the proposals under the NIEO. Very often these have taken the form of evaluations by professional economists, in the light of the objectives of efficiency and equity commonly accepted in the profession. Yet, a proper evaluation ought to start from the objectives of the developing countries themselves (or specified groups within them), and distinguish between criticisms of the objectives and criticisms of the proposed means of achieving these objectives. Thers is also the danger that we may impute objectives to the developing countries that they do not share with us. One difficulty is that in the discussions ends and means have been confused, so that greater self-reliance, larger shares in income, wealth or power, larger shares in industrial production or trade, earning stabilization, price stabilization of particular commodities, and price stabilization of all exported commodities, have been debated at the same level. An appraisal of the NIEO is likely to come to different conclusions according to whose objectives are chosen, according to the degree of gene-

rality at which the instruments for these objectives are discussed, and according to whether we are discussing ends or the appropriateness of instruments.

Another source of confusion is the fact that criticisms often compare the proposals with some 'ideal' solution, when in fact they should be compared with the most likely alternative. Thus, transfers through commodity agreements may, by some criteria, be thought to be worse than direct transfers through unconditional, untied, grants, which can be related to the needs of the recipients and the capacity to pay of the donors. SDR creation that should be guided by the world's liquidity requirements should, ideally, be separated from increases in development aid, not fused together in a 'link' etc. But the NIEO proposals have to be seen in the context of a world which is not 'ideal' but very imperfect. The alternative to doing things badly is often not doing them at all.

Another question is whether NIEO proposals should be assessed individually or collectively. It is possible to raise criticisms against each individual item on the Agenda, some of which at least would be answered by accepting certain packages. The common Fund has been criticized for its inequitable impact on distribution between countries; debt relief, on the other hand which benefits the poorest countries, has been criticized for its impact on capital markets, of concern mainly to middle-income countries. A package of the Common Fund, debt relief to the poorest and soft ODA might meet the needs of both middle- and low-income countries.

Criticisms have also been directed at the objectives and motivations of the NIEO. It has been easy to disprove the argument that reparations are due for the exploitation in the colonial era. But the disproval is irrelevant, because the case for progressive redistribution of income and wealth and for international contributions to poverty eradication does not depend on the infliction of past damage. Few believe that colonial rule was necessarily harmful, though it would be difficult to prove that it was necessarily beneficial. It should be plain that internal measures are crucial for both growth and domestic advance.

A more fundamental criticism of the NIEO has been along the following lines. Moral imperatives apply only to individuals, not to governments. If international transfers are to be justified

on moral grounds, donors must ensure that the moral objectives are attained. This implies highly conditional, targeted transfers for basic human needs, poverty alleviation, reduction of unemployment etc. The proposals of the NIEO do not meet this condition, since the distribution of benefits between countries and within countries is capricious. Only strict control and monitoring by donor countries can insure that the target groups are reached.

The first point to be made in reply to this criticism is that in a complex, interdependent world institutions have to used as vehicles for achieving moral objectives, even if it were agreed that only individuals are the appropriate ultimate targets of moral action. Upto a point, these institutions have to be trusted to concern themselves with the intended beneficiaries. The risk of some leakage has to be accepted. Family allowances intended to benefit children are paid to mothers and fathers who might spend them on gambling and drink. Local governments receive grants, intended for their citizens, from Central Governments, or States and provinces in a federation from the federal government. It is, therefore, perfectly legitimate to apply moral rules to States, the necessary conduits for channelling funds to individuals in the world order as it exists. (That this principle is accepted even by the advocates of the view that only individuals are appropriate moral targets can be seen when these same advocates demand debt service from countries whose governments have changed since the debts were incurred, or when they demand that multinational companies should be treated as 'moral persons'.) Of course, funds accruing to governments through commodity agreements and debt relief can be spent on the wrong purposes and may benefit the rich in poor countries, but so may aid funds. The best method to make it probable that donor objectives of poverty alleviation are achieved is not to rule out institutional intermediaries, nor to attach strict performance criteria to all transfers and monitor meticulously expenditure, but to select governments committed to anti-poverty policies and support them. Such selection is, to some extent, consistent with the proposals of the NIEO.

But a dilemma remains. Developing countries insist on national sovereignty in the use of resources, while the supporters of larger transfers in the developed countries through

official development assistance, the SDR link, debt relief, the integrated commodity programme or any other vehicle, stress the need for monitoring performance and internal reforms to benefit the poor. The resolution of this dilemma can be found in moves towards the 'global compact', or the 'planetary bargain' which Mr McNamara, the Aspen Institute, Mahbubul Haq and others have advocated. But as the positions of the North and South are defined at present, we are still some way from such a global campact. The North is not prepared to transfer the additional resources, the South is not prepared to give the necessary undertakings.

A final criticism of the call for an NIEO is that it is rigid, because relations between States and institutions needed to support them are constantly changing. But this is not a valid objection to constructive responses, because an order can incorporate rules and procedures for orderly change and adaptation to new circumstances.

It is unfortunate that the developing countries have chosen a set of ill-designed measures to translate worthy objectives into reality. Generalized debt relief (now dropped) and commodity schemes in so far as they are concerned with more than price stabilization, are regarded by many professional economists as inefficient and inadequate ways of achieving the objective of significant transfers of income, wealth and power, and of achieving a radical restructuring of the international system. In addition, the conflict over the demand by the developing countries for sovereignty over the use of resources, and by the developed countries for careful targeting and internal reforms, adds a serious obstacle in the way of reaching agreement. On the other hand, it is at least equally unfortunate that the developed countries have not responded more constructively and imaginatively to the pleas of the developing countries.

6. Alternative Responses by the Third World to the Current Impasse

The responses of the Third World to the current impasse in the dialogue can be discussed under the following headings:

(*a*) self-reliance, in the sense of doing desirable things for

themselves and for each other, whether on the basis of an individual country, a group of countries or the Third World as a whole;

(*b*) exercise of joint bargaining power to counter biased income, wealth and power distributions;

(*c*) exploration of areas of common and mutual interest between the South and North;

(*d*) evolution of rules, procedures and institutions to avoid mutually damaging confrontations and conflict;

(*a*) *Self-reliance : What can the Developing Countries do by and for Themselves?*

This area overlaps with the subsequent two. Greater self-reliance will increase bargaining power and make it more likely that adjustments in imperfections and inequities will be brought about. If self-reliance raises incomes and purchasing power, it will give rise to new common interests. But self-reliance is not in need of these secondary justifications. In the longer term, most of the things developing countries need they can produce for themselves, and most of the things they can produce they themselves need.

Reduced dualism and a more poverty-oriented approach will tend to create greater intra-Third World trade opportunities. Various forms of joint multinational enterprises will give rise to opportunities of investment co-ordination. Monetary co-operation can encourage trade expansion, and growing trade, *e.g.*, through Third World preferences, can be financed by intra-Third World financial co-operation, such as clearing or payments unions. Mutual aid and technical assistance in rural development, family planning, technology, is often more effective between countries that are not at too dissimilar levels of development than when inappropriate methods are transferred from highly advanced countries. Joint activities could be developed in professional associations, in research, in the exchange of information, in education and training, in transport and communications, in food and energy policy. In these ways the developing countries could make themselves less dependent on concessions from the rich countries and, at the same time, evolve their own styles of development.

Such a strategy calls for new types of institutions. A strong

Third World secretariat, with a first-class staff and Third World loyalties has been proposed. Institutions in other fields, like a bank capable of creating monetary assets for Third World trade, or a board co-ordinating investment decisions, or a community of developing country governments monitoring each other's basic needs policies,[7] are possibilities.

(*b*) *Exercise of Joint Bargaining Power*

In addition to such actions of self-reliance, the developing countries could use joint action in certain spheres to strengthen their power in bargaining with the developed countries. The debate over the course of the terms of trade has been shunted onto the wrong track, by disputing the question as to whether they had deteriorated historically. The relevant question is not what are the terms of trade compared with what they were, but what are they compared with what they should and could be. Producers' associations in some instances might take the place of commodity agreements on which consuming countries are represented. The fact that current price rises might speed up the process of inventing substitutes is not necessarily an argument against them, for the greater short-term receipts could be used for diversification funds. The question is complicated not only by the difficulty of estimating short- and long-term elasticities of demand and their interdependence, but also by the possibility of the developed countries retaliating by the raising their export prices. But it might be easier to get agreement of purchasing countries on non-retaliation than on commodity agreements.

Joint action *vis-a-vis* multinational corporations could replace or reinforce a generally agreed upon code. Developing countries could agree not to erode each other's tax base by giving competitive tax concessions and to apply similar rules and guidelines. Bargaining power can be use also in other shares, such as overflying rights for airlines, narcotics control, patent law, etc. The main obstacle is that some differences among developing countries are as great as those between them and the developed countries, and joint action is difficult to achieve without a much stronger system of incentives to form and adhere to these agreements. Producers' associations are

notorious for their instability, for the more successful the agreement is in raising the price, the stronger the incentive for individual members to defect. And the fear that others may operate outside the agreement, or that all may have to operate without the agreement, is itself a powerful destabilizing force. More thought should be devoted to mechanisms to create incentives to penalize outsiders and defectors, and to reward adherents, as well as to strengthen solidarity, in order to increase the stability of joint action.

Successful co-operation among developing countries may not be possible in all areas but may be feasible in some, *e.g.*, in improving the terms of technology transfer, in bargaining with multinationals, in controlling migration of professionals, in reaching joint action on taxation of foreign investment.

Topics (c) and (d)

Much has been written recently on the importance of exploring mutual interests. Clearly, this is a promising area because it provides a firmer basis for action than unilateral, unrequited concessions. Since reform in this area is in the interest of both the developing and developed countries, it will be discussed in the next section that deals with the response of the developed countries.

7. A Constructive Response by the Developed Countries

Although some of the developing countries' proposals for the NIEO have not been well designed, the response of the developed countries has not been constructive or imaginative. If the package proposed at present were to be the only one on which developing countries could agree, this would be an argument for supporting it, in spite of its deficiencies. It is, however, worth considering modifications of this package (it has already been modified by the abandonment of the demand for general debt relief and the scaling down of the Common Fund) and alternative packages. It would require a separate paper to map out such alternatives but it is possible to lay down certain principles on the basis of which progress may be made.

There are three areas in which more thought should be devoted to the design of appropriate policies :

(*a*) First, there is the area where developed and developing countries have common or mutual interest. (The two, though often confused, are clearly not the same. The former refers to objectives pursued by co-operation, the latter by exchange.) This covers the exploration of positives-sum games.

(*b*) Second, there is the area of the avoidance of negative-sum games. Other countries can be not only sources of positive benefits, but also of threats that we must try to avert. Co-existence in an interdependent world can give rise to the production of goods; but it can also give rise to the production of 'bads', which have to be combatted by 'antibads'. The exploration of areas of joint action for 'anti-bads' may be even more important than the search for goods.

(*c*) Third, there are areas where existing biases, discriminations and imperfections in the international economic order work against the interests of the developing countries and where we have to explore joint methods of correcting them. This looks like an area of zero-sum games, although longterm benefits to all may accrue. Under this heading would also fall more 'voice' for the developing countries and concessional, gratuitous transfers.

The three areas are related to Kenneth Boulding's exchange system, threat system, and integrative or love system. In the exchange system partner A does something good to another partner (B) in return for B doing something good to A. In the threat system A threatens to do something bad to B, unless B does something good for A. The integrative or love system is a system in which the individual comes to identify his own desires with those of others. Exchange systems are the basis of economics, threat systems of politics. Exchange systems are based on the transfer of goods, threat systems on the transfer of 'bad's.

Clearly, the three areas overlap, and each overlaps with self-reliance on the part of the developing countries. Where there is

common interest and harmony, so that reforms yield joint gains, there remains the division of these gains between rich and poor countries which can give rise to conflict. Self-reliance by the poor may be in the short and long-term interest of the rich countries. They may prefer Korea to sell its shoes in Lahore, and Taiwan its textiles in Indonesia, to having their own markets swamped. And the correction may impose short-term losses on rich countries but benefit them in the long run.

Following on from the work in these areas is the question of the links between restructuring the international system as it affects relations between governments, and the consequential domestic measures required in both developing and developed countries to ensure that the benefits accrue to the poor, and that the costs are borne fairly.

Trade liberalization involves both restructuring in developed countries, so that the whole burden is not borne by the dismissed workers in depressed areas, and in developing countries, so that the gains from liberalization do not wholly accrue to big exporting firms, possibly even multinationals. In reaching commodity agreements, there should be some safeguards that the higher prices do not fall exclusively on poor consumers in rich countries, and that the restrictions that quota schemes involve are not largely borne by small farmers in poor countries, so that the big plantations benefit from both higher prices and unrestricted sales. And when we agree on debt relief, we want to be sure that it is more than relief for bankers in rich countries, whose loans are serviced out of aid funds. Such consequential domestic measures are necessary both inside developed and inside developing countries, if the ultimate impact of the reforms of the NIEO is to be on improving the lot of the poor.

8. Common and Mutual Interests

Until 1973, issues of economic interdependence and development belonged to largely separate areas. Development was dealt with by development assistance and trade preferences of varying generosity. Interdependence was dealt with in the OECD. It was a matter for the rich.

The validity of this dichotomy has been questioned in the

last 7 years. The developing countries' shares in world population, in world trade and in world production have increased. Some developing countries have now large international reserves, others large international debts.[8] They supply raw materials, especially metals, on which the developed countries increasingly depend. The one-way dependence of the South on the North has now become a two-way interdependence.

International inter-*dependence* should be distinguished from international *relations*. The test of the difference is this : if relations were cut off, ready substitutes could be found so that not much damage would be done. Inter-*dependence* means that if relations were cut off, substantial damage would result. To illustrate : much trade between industrial countries is conducted in similar finished consumer goods and caters for slight differentiation in tastes. A smaller volume of trade (and a less rapidly growing one) with the developing countries consists of vital food and raw materials. In technical language, it is consumers' (and producers') surpluses that count, not trade volumes (values) and their growth.

Trade is not an end in itself, but a means to a more efficient allocation of resources and to greater consumers' satisfaction. The long-term importance of trade is, therefore, measured not by its total value or its rate of growth, but by : (*a*) the difficulty in *production* of substituting domestic goods for imports by shifting resources employed in exports, and (*b*) the sacrifice in *consumption* of shifting from imports to domestic import substitutes, if the products are not identical, or of doing without them altogether.[9] A vast and ever-growing exchange of Volkswagen for Morris Minors reflects small importance, a small exchange of coffee or copper (not to speak of oil) for engineering goods reflects vital dependence (or interdependence). Americans would not suffer much hardship if they had to drive Fairmonts instead of Volvos, but might if they had to drink Almadén instead of Château Margaux, and certainly would if they had to do entirely without manganese, tin or chromium imports. Total trade figures are, of course, relevant to other issues, such as changes in the balance of payments, which in turn may affect consumption and welfare. But these sequences would have to be spelled out.

The most generally accepted area of mutual interest is trade

liberalization and liberalization of the flow of the factors of production, capital and labour. On trade, it could be argued that already fairly rich developed countries should weigh the costs of adjustment, probably repeated and painful adjustments, against the gains from further additions to income. Affluent countries, or at any rate their governments might decide that it is in their national interest to forego at the margin further income rises for the sake of a quieter life, and greater industrial peace.

The difficulty with this position is that the security of employment is not necessarily guaranteed by protection, for jobs in export trades are endangered, and that the costs of such a form of a quiet life can be very high indeed, particularly for a country dependent on foreign trade. Moreover, if several countries adopted such a position, the mutual impoverishment could be substantial.

Not only may the costs of adjustment be high, but the benefits from additional trade may be low. Sir Arthur Lewis invited us to imagine the consequences upon the remaining group of countries if either the rich countries of the North or the poor countries of the South were to sink under the sea. His argument is that, after a period of adjustment, the losses would be negligible. If this were so, the large and, until 1973, rapidly growing trade volumes are no indication of genuine inter-*dependence*.

There are also mutual gains from the flow of capital. Here special attention should be paid to measures which, without being identified with aid, could have a leverage effect on aid, such as guarantees, co-financing, improved access to capital markets and markets for manufactured exports etc.

Movement of goods and of capital and labour would not only register all the mutual benefits expounded by the theory of comparative advantage, but would also accelerate growth, reduce inflation, generate unemployment, expand choice and support the international system of trade and debt service.

The most powerful argument for international trade is not one based on the doctrine of comparative advantage, which assumes constant costs (Ricardo) or increasing costs (Heckscher-Ohlin), but one based on economies of scale, increasing returns, learning-by-doing and decreasing unit costs, as elaborated by Allyn Young. Adam Smith already had pointed out that the 'divi-

sion of labour is limited by the extent of the market'. He thought mainly of the geographical extent. Allyn Young added the reverse proposition, that the extent of the market, not only in the geographic sense, but also in the sense of the size of the income, depended on the division of labour. Production, productivity and incomes rise as specialization proceeds. It is on the interaction between these two—the division of labour and the extent of the market—that economic progress depends. To widen the market, to raise incomes in the South, makes greater international specialization possible, which in turn contributes to raising productivity and incomes. It has, of course, been questioned whether this style of development, relying on large-scale production and increasing specialization, is consistent with the desire for diversity, human dignity, self-reliance and respect for the environment.

Two specific issues under the heading of international trade are worth exploring. The first is the reform of tariff structures which now tend to cascade with successive stages of processing. Such de-escalation would improve the international location of industries and would permit developing countries to benefit from the external economies of learning effects from a primary product-based form of industrialization. They might also be able to make better use of waste products, now discarded by the richer countries.

The second area is that of stabilization of commodity prices. The large fluctuations that occur now benefit neither producers, who are discouraged from investing, nor consumers, who find it difficult to plan production.

On present evidence and theoretical considerations, there is not much in the argument that *general* flows of ODA to developing countries—what is sometimes called a Marshall Plan for the Third World—can regenerate growth in the developed countries. For the Third World to be an 'engine of growth' for the industrialized countries, the quantities are too small (though they can make a contribution), and domestic measures (tax reductions and public expenditure increases) can do the same with higher political and economic returns, if the national interest were the only guide and if fuller employment were really desired. Some of the demand created in the North is from arms sales. If these were to be reduced, another source would have

to replace them. Moreover, the greatest need for ODA is in the poorest countries, the trade share of which is small and only slowly growing, whereas the best 'investment' of such aid would be in the middle-income developing countries, which are already earning much foreign exchange through their exports.

The argument that *specific* exports can be supplied from underutilized capacity at low, zero or negative costs, and that *specific* imports can contribute to bottleneck busting, and hence to the resumption of orderly growth without premature inflation, deserves closer examination.

Aid from surplus capacity has certain drawbacks. If, in the long run, the surplus capacity should be scrapped and the workers retained, this process is delayed and an inefficient production structure is perpetuated. This can be particularly damaging if the surplus capacity competes with imports from the developing countries. If the production could have been used at home, or could have been exported at a commercial value, the costs of the aid are correspondingly higher. Nor is it always the case that recipients need or want the surplus production, when it is available, although the rapid growth of exports in the past has left certain industries, such as steel, chemicals and building materials, underutilized more than the average.

There remain, however, sectors and industries, especially those where indivisibilities are important, in which the temporary (cyclical) emergence of surplus capacity could be harnessed to the aid effort. Steel plant manufacturing capacity, shipbuilding capacity, or other heavy capital goods sectors are for technical reasons subject to fluctuation in utilization, and periods of underutilized capacity might be used for aid-financed exports to developing countries in need of steel plants, ships or other capital goods. Even where the case is strongest, aid from surplus capacity reduces the costs for the donor; it does not add to his profits.

As far as *imports* are concerned, developed countries wishing to resume growth are liable to run into *bottlenecks* before full employment for the economy as a whole is achieved. Imports from developing countries can help to break these

bottlenecks and thereby enable developed countries to resume higher levels of activity with less inflation.

The removal of certain world-wide scarcities, which now prevent countries from resuming non-inflationary, full-employment growth, may be against the interests of small groups benefiting from these scarcities, but is clearly in the interest of all countries and humanity at large. Normally, resources devoted to one sector deprive other sectors of resources. But bottleneck-busting investment in the bottleneck sector *increases* the utilization of resources in other sectors and provides a stimulus for further investment. There is a multiplier effect. More specifically, energy and certain minerals fall into this category. Investment that raises the world supply of energy is bound to benefit all people in the long run. (The case for investment in raising world food production, often mentioned in this context, is a different one; it is that at small cost to the developed countries the major evil of hunger and malnutrition can be removed).

These bottlenecks can be either of a short-term nature, or they can represent long-term scarcities. In the latter case, investment by the North in the South, in order to overcome these global scarcities, can make a contribution to the resumption of long-term orderly growth without inflation. But in the long-term interdependence is likely to be less than in the short-term, because substitutes for and economies in the use of the scarce materials are possible. With technological advance, it is doubtful whether, in the long run, any country or group of countries can be said to be wholly dependent on some other countries. This is true both for the North and for the South. It greatly reduces the alleged significance of global interdependence.

Institutional innovation in the field of minerals and energy requires resolution of the present conflicts between companies and governments. Exploration is a risky business in which one lucky strike has to pay for numerous unlucky strikes. This type of risk is borne more efficiently by an intergovernmental organization, which would also add to available information and reduce friction in negotiating contracts. A new institution could also supply finance for host country equity in

new developments and for processing facilities in developing countries.

An area of possitive-sum games is policies towards transnational corporations and direct private foreign investment. In the past, fears of expropriation, restrictions on repatriation or remittances, price controls and other policies reducing profitability or leading to losses have caused uncertainty and have raised the required rate of return on foreign investment. This high rate of return has, however, often led to the very measures that the investor feared, for host governments felt that companies were taking out of the country more than they were putting in.

There is a specific dilemma for developing countries. If the rate of reinvestment of foreign profits is lower than the rate of return on the capital invested, remission of profits presents a drain on foreign exchange. If, on the other hand, the rate of reinvestment of foreign profits exceeds the rate of return, on plausible assumptions about the rate of growth of national income and the capital--output ratio, a growing proportion of the stock of capital is going to be owned by foreigners. This dilemma between foreign exchange losses and alienation of assets has led some countries to expropriate foreign enterprises. A reduction in the uncertainty about such measures would reduce both the rates of return required by the companies and incentives to take measures by host governments that raise risks for companies. Well designed measures to reduce uncertainty can increase the flow of foreign investment, induce companies to take a longer-term view, alleviate fears of host governments, and thus benefit both firms and host countries.

Among such measures would be investment guarantees, agreements on arbitration procedures, sell-out and buy-out options after agreed periods of prices to be determined by agreed procedures, model contracts, investment codes, joint ventures, and new public-private hybrid institutions, combining the virtues of private initiative and enterprise with those of a commitment to development.

Another area of mutual interest for policies toward multinational firms is the application of anti-trust action to the international behaviour of these companies. It is just as much

in any industrial country's interest that its companies should not act like cartels or monopolies internationally, as it is that foreign companies should not monopolize its domestic market. There is now an asymmetry in that anti-trust action and restrictive practices tend to be outlawed for domestic activity but permitted (or even encouraged) for international ones.

The conclusion that these considerations lead to is the need for a new international institution which would comprise some of the areas now covered by GATT, some of those covered by UNCTAD, and some not covered at all. Such a new International Trade and Production Organizations (as Miriam Camps[10] has called it) would be concerned with laying down rules and principles not only for tariff and non-tariff barriers to trade, but also for intra-firm trade (which now escapes these rules), for State trading (increasingly important also in mixed economies), for restrictive business practices, agricultural products and raw materials (now under UNCTAD), for services and for investment. The multilateral trade negotiations have not solved the problems of structural adjustments that a new, changing international division of labour calls for, nor have they touched on the investment wars that have tended to arise from the attempts of national governmnets to capture for themselves taxes and other benefits from private investment, thereby eroding the potential gains from investment. (Institutional arrangements to prevent these wars fall under the subsequent heading, 'avoiding negative-sum games'.) It may be argued that it is better to build on existing institutions and procedures, but, as Gerald Helleiner has reminded us, Clausewitz said 'a small jump is easier than a large one, but no one wishing to cross a large ditch would cross half of it first.'

Common interests can also be established through co-operation in the management of the global commons; ocean fisheries, air and sea pollution, radio frequencies, civil air and merchant shipping routes and world monetary conditions. The already mentioned success of some international institutions devoted to technical aspects of international co-operation, like the Universal Postal Union or the International Telecommunication Union or the World Meteorological Organization bear witness to the possibility of successful international co-operation if strictly defined technical areas are at stake. As a by-product of this global

management, revenues might be raised from some of these activities, like ocean fisheries or international travel.

9. Avoiding Negative-sum Games

The essence of interdependence is that members of the world community are capable, by unilateral action, of inflicting harm on others. The fear that others may take such action can be a sufficient condition for defensive, detrimental action of this kind.

The prime example in this field is the arms race which absorbs scarce resources and, beyond a certain critical point which we have long ago exceeded, breeds violence. Between 1946 and 1976 120 wars were fought, 114 of them in the Third World. The number of people killed is somewhere between those killed in the First and Second World Wars. It has often been noted that economic growth has not abolished poverty. It is less often noticed that large defence expenditure has actually bred violence. The Laffer curve, whatever may be true for taxation, seems to apply to expenditure on arms. Three per cent of the total annual expenditure of $450 billion now devoted to armaments would double the annual resources now spent by the OECD countries on official development assistance. But such arguments do not cut any ice until it can be established that the expenditure at present levels is counter-productive and that we would get better security from a reduced volume of expenditure.

In the economic area protectionism and deflation to protect the balance of payments are instances of negative-sum games. In the area of private foreign investment, actions by both parent and host governments to tilt the advantages from private foreign investment in their direction have similarly destructive effects. Large incentives are offered to bid for these investments in 'investment wars', like the trade wars of the 1930s. Overfishing, the pollution of the sea and the global atmosphere, and the excessive exhaustion of non-renewable resources are other examples. Co-ordination of policies and international institutions for co-operation are needed to avoid such mutually destructive actions.

The institutional responses might be illustrated by interna-

tionally co-ordinated action. In order to avoid the self-defeating and mutually destructive actions arising from attempts to correct balance-of-payments deficits imposed by a few presistent surplus countries, an international central bank, with power to create liquid assets, is necessary. It has been argued that the system of flexible exchange rates has restored full autonomy for national monetary policies. But this is by no means as obvious as is often thought. Hardly any government would permit completely 'clean' floating, and 'dirty' floating may well require larger rather than smaller reserves to counter speculative attacks. For the creation of these an international central bank is necessary.

A second institutional reform would be a mechanism for some form of co-ordination of investment decisions, so as to avoid the swings between overcapacity and shortages of capacity from which we have suffered in the past. Opponents of such co-ordination fear lest this is the entry of market-sharing agreements and cartels, but in many national plans co-ordination of investment decisions has proved entirely compatible with maintaining competition.

Other illustrations would be agreements to refrain from trade and investment wars and the already mentioned establishment of international firms that would combine the virtues of private enterprise and freedom from bureaucratic controls with the objective of promoting development. Another area would be taxes on activities where independent national actions now lead to the deterioration of the world environment : a tax on overfishing, on polluting the sea and atmosphere, or on mining non-renewable natural resources.

10. Zero-sum Game

Exploration of areas of zero-sum games, that is to say actions where a sacrifice is required on the part of the developed countries, in order to benefit the developing countries, comprise three fields. First, the correction of imperfections and biases in the existing world order which work against the developing countries. Second, transfers of resources from the rich to the poor. And third, more 'voice' for the developing countries in the councils of the world.

(*a*) *Existing Biases, Imperfections and Discriminations in the International System and how to Correct Them*[11]

An international economic order that discriminates systematically against one group of countries can give rise to confrontations and conflicts and to negative-sum games in which all lose. But the appeal to correcting inequities need not be wholly to national self-interest. There is an independent moral case for a just world order.

Countries should be willing to co-operate in correcting biases in market structures and government policies that are damaging to the developing countries. Such corrections would contribute to a more equitable and therefore, acceptable world order and, by reducing frictions and conflicts, can be seen to be also in the long-term interest of the developed countries.

A reponse along such lines would meet the demands of both efficiency and distributive justice. Not only are the specific proposals more in line with the canons of economic efficiency, but, by accommodating the developing countries' call for a fairer international order, they would prevent the recriminations and conflicts that are bound to cause international disorder, one of the greatest sources of inefficiency.

At the national level, governments attempt to provide macro-economic stability through monetary and fiscal policies, to redistribute income through progressive taxes and social services, to guarantee farmers an adequate income, to correct for the worst features of free competitive markets, and to cushion victims against the damage of change. All these government actions are in the nature of public goods. There is no international government to do any of these things on a global scale. In the 19th century Great Britain, and for about 25 years after 1945 the USA, provided a power centre that fulfilled some of the functions of an international government, such as providing compensating capital movements, financial institutions and being a lender of last resort. Since about 1970 such a centre has been lacking. The international organisations have been too weak to fulfil the required functions. International institutions are needed to provide internationally the 'public goods' of stability and equity that civilized national governments pro-

vide as a matter of course for their citizens. The implementation of such reforms would be a contribution to the foundation of a stable, equitable and prosperous world order.

Whatever our motivation for correcting imperfections or biases in the present international economic order, such biases occur in various fields. The division of the gains from trade may be very unequal because a few large buying companies from rich countries confront many weak sellers from developing countries, and the demand for the final product is fairly inelastic. Or the bulk of the processing of raw materials from developing countries may be done in the developed countries, who reap the large value added, not because they enjoy a comparative advantage but because of market power and policies, such as cascading tariffs, or discrimination in shipping or credit. Or the distribution of the gains from productivity growth between exporters and importers may be uneven, so that improving commodity terms of trade are consistent with deteriorating double factoral terms of trade.

In this context, thought should be given to what reforms are needed, by creating new or changing old institutions, rules, policies and others measures to change the location of economic activities and to improve the developing countries' bargaining power, so as to reduce the bias in the distribution of gains from trade.

There are imperfections in the export markets of developing countries. There are also imperfections in the supply of imports. Developing countries are often faced with import prices that are higher than those charged to industrial countries and often suffer from price discrimination, restrictive trade practices, export cartels, inter-firm arrangements for the allocation of markets etc. There exists evidence that small countries pay higher prices for imported machinery, chemicals, iron and steel than large countries. The USA prohibits cartels internally, but specifically exempts export cartels. Should there not be an anti-trust law internationally, just as there is one to protect US citizens?

There are imperfections in access to market information. The ability to buy cheap and sell dear depends upon full market information. The large transnational firms possess this but poor developing countries do not. The disadvantage is cumulative :

ignorance about how to acquire information about production processes reinforces the absence of information about these products or processes themselves. There are imperfections in access to knowledge and technology. Several measures have been proposed to correct this bias. They involve reforms of the patent law, in the market for technology and in the thrust of research and development expenditure. There is a bias in the developing countries' access to capital markets. There may be no shortage of finance in Eurocurrency markets, suppliers, credits or through the World Bank, but there may be a bias in the issues and bond markets. Much needs to be done in order to reduce imperfections and other obstacles in the way of acces to the world's capital markets.

Imperfections in labour markets are reflected in the present bias in the admission and encouragement of certain types of professional manpower, often trained by the developing countries (brain drain), and the considerably less free movement of unskilled labour. The world's division into nation States, each monopolizing the physical and technical assets within its boundaries for its own benefit, is not consistent with a rational or moral or acceptable world order.

Does the international monetary system discriminate against developing countries? Monetary restrictions have an important impact on unemployment. The SDR-aid link is probably dormant for a while, but there should be a gold-aid link. As central banks sell gold to the IMF for SDRs, the IMF can sell the gold and use the receipts for contributions to IDA.

Transnational corporations also introduce imperfections. How can we strengthen the bargaining position of developing countries in drawing up contracts with TNCs; how can we enlarge the scope for 'unbundling' the package of capital, management, know-how and marketing; what is the role of public sector enterprises in negotiating with private TNCs?

An analysis of the distribution of gains arising from much-touted 'outward-looking' foreign investment, where quasi-rents and monopoly profits accruing to capital, management and know-how go to the rich countries, while the near-subsistence wages for semi-skilled labour go to the developing countries

would be useful. The world in which we live corresponds to neither of two popular models : it is neither a truly 'liberal' world in which all factors are completely mobile across frontiers, so that they can seek their highest rewards; nor is it the world of the textbooks in which all factors are completely immobile internationally and trade is a substitute for factor movements. Some factors of production, such as capital, management and know-how, are fairly mobile internationally, and earn high rewards, whereas unskilled and semi-skilled labour are immobile internationally, though in abundant supply domestically, and earn low rewards. This has important implications for the distribution of gains from trade, technology and investment, and for the attitudes towards multinational firms.

There may be biases in information on political news coverage. Are the media biased in the scope and content of their news coverage? Is there a need for additional press agencies representing the point of view of developing countries?

Should reforms in all these areas take the form of restoring genuine competition, to reduce market power concentrations in rich countries, or should they take the form of mobilizing countervailing power, like organizing numerous poor producers (as the trade unions did in the 19th century), or should they take the form of changes in rules, institutions or legislation? Should there be reforms in the accumulation, selection and dissemination of information and knowledge? Many current recommendations are based on the false premise that existing markets are competitive and efficient, and spread the benefits of economic progress speedily and widely. This assumption is quite unrealistic for the world as a whole.

(*b*) *Resource Transfer*

An NIEO calls for a substantial increase in the amount of resources to be transferred to the developing countries, with the primary objective of eliminating the worst aspects of poverty within the lifetime of a generation. The specific forms this transfer takes is a secondary question. It has been proposed that developed countries should commit themselves to a total, but that each country should be free to decide in what form it

wishes to make its stipulated contribution, whether through commodity agreements, preferences, debt relief, additional ODA etc. Such an approach would prevent differences among developed countries over specific instruments blocking the achievement of an agreed objective.

The rational way would be an international, progressive income tax, with a lower exemption limit and a rising aid/GNP ratio as income per head rises. Other tax proposals have been made, such as a tax on overfishing, on global pollution, on sea-bed resources, on international travel, on armaments etc. But an international income tax would be the most rational way towards automaticity in contributions and fair sharing.

Monitoring of the objective, poverty eradication, can be done in a way that would avoid the intrusion of donor-country performance criteria, with all the suspicions to which this would give rise, and without the abuse of funds received by developing countries. Harlan Cleveland has proposed a system like that under the Marshall Plan, in which the developing countries themselves would examine and monitor each other's performance in reducing poverty. Accepted extranational secretariats are another possibility.

(*c*) *'Voice'*

The demand of the developing countries for greater participation in the international decision-making process calls for a reform in the membership and voting system of international institutions, More 'voice' for the developing countries is likely to remove some of the frustrations that spring from the perception of powerlessness. But greater participation by the developing countries would be pointless if it were accompanied by reduced contributions from the industrial countries.

The demand for 'more voice' is, of course, ultimately a demand for a different power distribution. Power to achieve common objectives can be a positive-sum game, in the sense that joining others can strengthen this power. But where objectives conflict, power is a zero-sum game. If there were a harmony of interests, more voice would not be needed. The demand

for 'more voice' implies that certain objectives of the claimants have not been met. What is ultimately at stake is a restructuring of power relations.

11. The Relation between 'Narrow' and 'Higher' National Self-interest

We can build on areas of common national interests, emphasizing mutual benefits to be derived from, for example, resumption of orderly and equitable growth in the world economy, forswearing self-defeating protectionism, exploring ways of increasing the resources in globally scarce supply etc. But while there is considerable scope for positive-sum games in exploring areas of common and mutual interests and of avoiding self-defeating, mutually destructive policies, there is also a 'higher' interest in a world order that both is, and is seen to be, equitable, that is acceptable and therefore, accepted, and that reduces conflict and confrontation.

All societies need for their self-regulation and for social control a basis of moral principles. Individuals are ready to make sacrifices for the communities they live in. Can this principle stop at the nation State? A belief in the harmony between self-interest and altruism is deep-seated in Anglo-Saxon thought and action. One is reminded of the 18th century Bishop Joseph Butler : 'When we sit down in a cool hour, we can neither justify to ourselves this or any other pursuit, till we are convinced that it will be for our happiness. . .' The only question is why it appears to be easier to identify, or at least harmonize, individual happiness with the national interest than with that of the world community. It is odd that a moral, disinterested concern by rich countries with the development of the poor is hardly ever conceded. As hypocrisy is the tribute vice pays to virtue, so professions of national self-interest in the development of poor countries may be the tribute that virtue has to pay to vice. Let us, in the present fashion for stressing common and mutual interests, not underestimate the power of moral appeals. Holland, Sweden and Norway, which have put international co-operation squarely on a moral basis, have hit the 0.7% target. It is the countries in which aid has been sold to the

public as in the national self-interest where the effort is sadly lagging.

The common interests must also be defined in terms of different time horizons : the next year, the next 5 years, the next 20 years. There may be conflicts and trade-offs between these different time spans. For example, concessionary aid to the poorest may involve economic sacrifices in the near future but, by laying the foundations for a world in which all human beings born can fully develop their potential, it contributes to the long-term interest of mankind.

One difficulty is that in democracies adults have votes, but children and the unborn have no votes. The fight is not only against powerfully organized vested interests, but also against all our own short-term interests, that neglect the interests of future generations.

The 'higher' interest in an acceptable world order can be defined either in moral terms or in terms of the desire to avoid negative-sum games, to avoid breakdown and wars. Whatever the definition and justification, its aim is to transform adversary relationships into co-operation. When interests diverge or conflict, the task of statesmanship is to reconcile them. This is a task quite distinct from, and more important than, that of exploring area of common or mutual interest. It is in this light that co-operative action to eradicate world poverty and to re-structure the international economic order have to be seen.

NOTES

1. This ratio of exports to GNP was : for the UK 19.3% in 1913 and 20.7% in 1976; for the USA 6.5% in 1913 and 6.8% in 1976; and for Germany 20.5% in 1913 and 22.3% in 1976.
2. For another distinction, *viz.*, that between inter-dependence and international relations, see p. 35.
3. To say that the world was more integrated in the 19th century than it is today implies using a definition of 'integration' which does not comprise equal opportunities for all citizens Clearly, the opportunities were very unequal. But the world resembled more a single country than it does today.
4. In the low-income developing countries exports were 13.8% of GNP

in 1960 and 15.7% in 1976. Low-income countries are those with an income per head of less than $300 in 1975.

5. Of this long-standing confusion between universal and uniform, or general rules, even such a clear-headed thinker as David Hume is guilty. Hume contrasts the highly specific reactions when we are seeking our own self-interest with the 'universal and perfectly inflexible' laws of justice. He seems, like many others (including GATT), not to make a necessary distinction between general principles (the opposite of specific ones and therefore, necessarily simple) and universalprinciples (which may be highly specific and highly complicated, provided that they contain no uneliminable reference to individual cases). Thus, Hume says, in one place 'universal and perfectly inflexible', but lower down 'general and inflexible'. And the use of the word 'inflexible' conceals a confusion between a principle being able to be altered (which has nothing to do with its universality or generality) and its having a lot of exceptions written into it (which is consistent with universality but not with generality). Hume evidently thinks that the rules of justice have to be simple, general ones. He argues that unless the rules are general, people will be partial in their application of them and 'would take into consideration the characters and circumstances of the persons, as well as the general nature of the question. . . the avidity and partiality of men would quickly bring disorder into the world, if not restrained by some general and inflexible principles'. But this is fallacious. In order to prevent people from being partial, the principles have to be universal, *i.e.*, not contain references to individuals; they may, and indeed should, not be general; surely our judgements based on them ought to 'take into consideration the characters and circumstances of the persons, as well as the general nature of the question.'
6. For a valiant attempt to demonstrate common factors in the Third World, see Ismail-Sabri Abdalla, 'Heterogeneity and differentiation—the end of the Third World?', *Development Dialogue*, No. 2 (1978).
7. See Harlan Cleveland, *The Third Try at World Order* (New York : 1976).
8. The share in total world trade of all developing countries has increased from 21.4% in 1960 to 24.6% in 1976 (though excluding major oil exporters the share declined from 14.8 to 10.2%); their share in international reserves has increased from 17.8% in 1960 to 45.9% in 1976 (excluding OPEC from 13.8 to 20.2%); their share in population from 72% in 1960 to 76% in 1976; and their share in production from 18.2% in 1960 to 22.6% in 1976, measured at constant 1975 dollars
9. Irma Adelman, in private correspondence, has suggested that the major influence of international trade on development is that it

enables a country to decouple production from consumption, and thereby presents more options for development policy.

10. *The Case for a Global Trade Organization* (Council on Foreign Relations, 1980).
11. This subject is well treated in Gerald K. Helleiner, 'World market imperfections and the developing countries', Overseas Development Council, Occasional Paper No. 11 (1978).

3

The Refsnes Seminar : Economic Theory and North-South Negotiations

GERALD K. HELLEINER

1. North-South Dialogue, Stalemate and Economic Theory

During the course of the 1970s, spokesmen for the developing countries placed a series of proposals for international economic and political reform upon the agenda of the United Nations and its member organizations. Their proposals for a New International Economic Order (NIEO) have been debated at great length at innumerable conferences within the United Nations system and elsewhere, and have been the object of negotiations in a wide variety of different fora. Among other objectives, the proposed New International Economic Order involves : the regulation and stabilization of international primary commodity markets and the creation of a Common Fund for this and other purposes : improved access to Northern markets for the exports of Southern countries and appropriate adjustments in Northern economies to facilitate the expansion of Southern shares of global manufacturing industry : international monetary reform, the regulation of the activities of transnational corporations and the creation

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and enforcement of a code of conduct governing the international transfer of technology; the promotion of economic co-operation among developing countries; increased resource flows to developing countries; and, in general, the alteration of existing institutional mechanisms and structures so as to support the objectives of development in the Third World. Much more than in previous decades the developing countries' pressure in the 1970s has been directed to reforming the institutional framework and the 'rules of the game', both in the private sector and in respect of intergovernmental agreements.

Although a consensus resolution expressing support for the concepts of the NIEO was adopted by the Sixth Special Session of the United Nations, the countries of the North have never accepted the details of the proposed reform programme. Rather, they have stalled the discussions at almost every turn, giving ground only when—as in the case of Common Fund—the original proposal had been gradually negotiated into something quite different from that with which the South had begun, or when—as in the case of the revised guidelines for the application of IMF conditionality in its upper credit tranche lending policies—they still retained firm control over the institutions and policies at issue. North-South stalemate in the development of the NIEO programme is regarded by many policy-makers in the North as evidence of foreign policy 'success'.

The North-South dialogue of recent years is about specific changes in the functioning of international institutions and the rules of the present and emerging international game; it is *not* about alternative visions of 'another development'. No doubt, the required changes in underlying theories and perceptions for the purpose of pursuing the wider objectives of improving human society in many more dimensions would be much greater than those in the fairly narrowly defined economic ones which are to be discussed in this Chapter.

On part of the discussion of the 'quality' of development, however, there has been substantial emphasis placed by protagonists in the North-South debates. Northern policy-makers have consistently expressed their concern over the distribution of the benefits from international reforms, and have sought proof that increased Southern receipts or earings, from whatever source, would raise the income of the poorest people.

It would be idle to pretend that one could know that extra incomes earned by Southern actors would necessarily raise the income of the poor. But the inability to prove what the ultimate effects of international resource transfers or reforms would be cannot legitimately be employed as a rationale for inaction and the maintenance of the *status quo*. Certainly we need to know more about the complex interactions through which changes in one part of an interdependent system generate changes in other parts; but, while such investigations are pursued one must proceed on the basis of presumptions. 'Presumption' might in this context be taken as a synonym for 'frame of reference' or 'implict model'. The South's policy-makers presume that international reforms will raise the incomes of the poor; Northerners have been increasingly skeptical in this regard.

(*a*) *Economic theory and the analysis of North—South issues*

The NIEO debates are conducted primarily in terms of the arguments of economics. While there are unquestionably wider issues at stake in intergovernmental negotiations and 'issue linkage' among them all certainly exists, the basic questions debated in this sphere of international interaction are economic ones. Those called upon to prepare briefing papers are typically economists, and, when governments have them available to deploy, so are the negotiators themselves.

There are many possible explanations for Northern opposition to the details of the South's programme for an NIEO. Our concern is with the Northern arguments against it which have been couched in terms of the language of economics. This Chapter attempts to assess the descriptive accuracy of the economic theory employed in the current North-South debates, and the effects of its use for policy prescription. The inherent logic of economic arguments is not at issue; on its own grounds, only in rare instances can it be faulted. Rather, such matters as the suitability of its premises, the relationship of its 'stylized facts' to reality, and its capacity to explain and predict are the objects of our enquiry. A particular watch is kept for gaps and biases which it might be possible to repair, and there is concern throughout to improve understanding of the issues involved. In any such assessment it is virtually impossible to

retain total objectivity. The hold of our conceptual frameworks is difficult to break. In the words of Keynes (1936). 'The difficulty lies, not in the new ideas, but in escaping from the old ones, which ramify, for those of us brought up as most of us have been, into every corner of our minds' (*General Theory*, Preface).

World society and the world economy are highly complex. In order to try to reduce the complex reality into intelligible terms, men construct their own simplified models as to how the world works. Some models are taught in universities' social science courses. Others are developed by formally unschooled men and women who though they do not call them 'models' nevertheless build them from their own daily experiences. The former are much more likely to be formalized and explicit in their assumptions; but the implicit model upon which the Third-World farmer bases his daily decisions may be just as realistic and sometimes an even better predictor of events. Underlying 'models' or 'theories' or 'visions' of how the world functions or ought to function play important roles in men's behaviour. Religion, ideology science and culture all may be inputs to individuals' perceptions of the world, together with a variety of individual personality traits, experience and hunches. Rarely is anyone so rational and consistent as to be able to relate *all* his thought behaviour to such an underlying model; but some such model does generate presumptions as to how he will respond, at least in general terms, to particular situations.

Economics is taught not only as a positive or descriptive science but also as a normative policy-oriented one. By mastering a set of theoretical models, a collection of logical and statistical tools, and a certain body of facts and knowledge, the student of economics is encouraged to believe that it is possible to develop economics-based policy recommendations on virtually any subject, whether it is primarily an economic one or not. The structure of modern economic thought is internally consistent, amenable to adaptation in many different directions, and a powerful aid to logical analysis of economic questions. Its very rigour and power sometimes seduce those who employ it into the belief that political balances and compromises, achieved through bargaining processes rather than 'the laws of economics', are contrary to nature and to be deplored.

Economic theory is typically written and taught in terms of a cautious step-by-step approach in which all of the assumptions are carefully specified and all of resulting qualifications are noted. 'Exceptional cases' are enjoyed and paradoxes abound. On the frontiers of the discipline, vigorous experimentation can be found in the juggling of assumptions, the empirical testing of hypotheses, and the adaptation and impovement of both theoretical and quantitative economic models. Once in the difficult world of policy formation, however, students of economics are prone to forget all of the qualifications and assumptions, and frequently apply instead the simplest and crudest versions of the models they were taught, using, as they would put it, only 'the basic principles'. They are not necessarily to be blamed for this. Even eminent theorists have been seen, when pressed, to do similarly in order to be able to reach any real-world conclusions at all.

If this process of bowdlerization takes place, however, and some would argue that it is absolutely inevitable that it does, it becomes crucial to understand the sequences and models through which the subject of economics is typically taught. What are the crude models which are most likely to be retained? What does the loss of the qualifications and refinements do to reality of the model and its capacity to facilitate understanding? Does the failure to employ the whole range of the relevant literature result in significant error or bias, and, if the latter, does it operate consistently in predictable directions? A further major question—to be addressed later—is whether existing theory, even in its most sophisticated versions, adequately represents or explains the real world.

One of the certain consequences of the use of crude theory is the tendency to apply 'standard recipes' to all situations which appear roughly similar. More generally, it can result in 'knee-jerk' responses and almost 'intuitive' reactions to quite complex phenomena which really require more detailed analysis. The underlying frame of reference sets a 'mood' or a 'tone' to discussion of economic issues.

The 'theory' which lies behind dominant Northern approaches to North-South economic disputes is that of orthodox neoclassical economics. Although the modern literature of economics is rich ina daptations and elaborations of the core of the

neoclassical 'paradigm', many of which attempt to bring it into closer touch with reality, it is its 'core' which exercises dominant influence. That core is based upon the assumption of individual, rational and well-informed actors interacting upon competitive markets in pursuit of their own self-interest. Buyers and sellers do not transact with one another unless there is gain to both parties. From this it follows that the institution of the market is essentially benign in that it permits economic actors to achieve levels of welfare which would have been unattainable in their isolation from one another. It can be demonstrated that, under certain assumptions, the pursuit of individual self-interest will lead to the greatest possible increase in overall welfare consistent with the requirement that no actor be made any worse off than he was before entering the market. That is, scarce resources are allocated with greastest possible efficiency among the alternative possible uses which the various market transactors collectively demand. These harmonious results are inhibited only by 'market imperfections', elements of reality which are not in keeping with the assumptions of the model, and cases of 'market failure', which are treated as special cases, exceptions to the general rule. The distribution of income is treated independently of the 'primary' question of allocative efficiency in this approach, although it clearly affects the total composition of demand and is itself affected by the allocation of resources.

Approaching economic problems from a theoretical core of this character accustoms the analyst to treating important elements of reality, such as oligopoly, transnational corporate intrafirm trade, or imperfect and assymmetrically available information, as mere 'wrinkles' on the 'general case'. Similarly, such difficulties of real-world markets as externalities, instabilities and 'crises' are considered as oddities. The problem is not that there is no literature on these matters (in fact there is a very vigorous one), rather, it is that habits of thought develop which generate simple and almost subconscious and automatic approaches to economic issues which (as the relevant theoretical literature demonstrates) are far more complex than the crude core model would suggest. Almost imperceptibly, prisoners of their own paradigm, students of economics risk beginning to regard all governmental policies as 'interventions', likely to

impede the harmonious functioning of markets; and to regard the distribution of income (and power) as a matter—wholly independent of market functioning, to be handled by separate policies (lump-sum transfers) which do not 'interfere' with markets. Academic economists will instantly deny that they could be so vulgar in their application of their theories. But practitioners, who frequently have neither the time nor the inclination for the pursuit of the finer points of theory, are primarily interested in 'the large picture'. They need 'rules of thumb'; they read only the conclusions of complex background papers; they must develop a much-simplified 'frame of reference' for their daily round of dealing with specifics.

In domestic economic policy, the power of the crude underlying model to influence policy-makers has been tempered by the exigencies of politics. In the modern Western mixed economy there is substantial governmental participation in consumption, production and rulemaking. Governmental policies to influence the distribution of income, the location of industry, the level of competition and the overall behaviour of economic actors are commonplace. Allocative and distributional outcomes are arrived at through a complex mixture of social bargaining, political processes and markets. Policy-makers employ implicit 'rules of thumb' in which these various influences figure prominently, and economists are frequently derided as 'too theoretical' and inadequately aware of the political determinants of action. Individual policy-makers are obviously much affected by their own immediate socio-political environment. It is, therefore, not surprising that Scandinavian or Dutch perceptions of North-South issues are not typically so based upon market models or theory as are those of the US or the Federal Republic of Germany, since the relative role of markets as against non-market institutions is smaller, at least in public perceptions, if not necessarily in practice, in the former countries' polities than in those of the latter.

Of course, alternative non-market models of politico-economic relationships have also been constructed. Distribution of wealth and power can be placed, after all, at the very centre of one's concerns with such questions as allocative efficiency and market functioning relegated to the status of the relatively unimportant 'wrinkles'. It is also possible to focus upon systemic

changes and the longer sweep of history, in which case primary focus may be placed upon signs of systemic malfunctioning and breakdown. The 'knee-jerk' responses of those whose underlying models are such non-market ones can be every bit as predictable, and their 'recipes' just as monotonously 'standardized', as are those of the Western policy-makers who are the primary object of our attention.

The nature of the underlying models affects the statistics which are assembled and the bases on which performance is assessed. The way in which the value of production is 'added up' in order to measure the gross national product, for instance, is the product of the underlying theory, and the resulting aggregate (GNP) has been enormously influential as a measure of progress. Until very recently, on the other hand, statistics of income distribution were virtually non-existent, and assessments of progress on this front consequently almost impossible. It would be difficult not to attribute at least some of this statistical imbalance to the intellectual segmentation of these issues which is found in traditional neoclassical economic thought. Similarly, measures of the degree of market concentration in individual world markets or the degree of internalization of international trade are scarce, whereas data on the commodity composition of national exports and imports are available in enormous detail. Again, this imbalance must be at least partially attributable to the literature's fixation with explaining patterns of international trade, under competitive market assumptions, rather than assessing the distribution of its benefits or its actual overall efficiency.

(*b*) *Wider Northern perceptions of North-South issues*

The *overall* politico-economic 'frame of reference' which Northern policy-makers employ seems to rest, implicitly, upon the views that: (*i*) the global economy, run as it is on a more or less *laissez-faire* basis, under the aegis of the Bretton Woods institutions and the GATT, functions reasonable effectively and requires no further 'global management' except when special circumstances may require; (*ii*) the South is not a sufficiently important component of the global economy for it to play any greater role in global decision-making than it now does; (*iii*)

the most important influences upon Northern welfare are those which are determined by North/North (including East/West) agreements or disputes; and (*iv*) the South can and should, therefore, be handled—as distribution is handled in traditional market theory—as a separate matter for independent bargaining over distribution, with the clear presumption that how much the Southern 'clients' receive is a matter for the Northern 'patrons', discretion. [For a lucid summary of these approaches, see Hansen (1979).] When and if particular parts of the South become sufficiently important, through their own efforts, to merit inclusion, they can be admitted to the councils of the North as junior partners, provided that they play according to the same rules as all of the rest of the members of the 'club'. (The division of the world for analytical purposes into 'the North' and 'the South' is obviously not always the most helpful simplification.) There is no need, in the meantime, to alter the functioning of global markets or other institutions because of the clamouring of the South. Southerners are perfectly welcome to develop their own rules, and to go 'collectively self-reliant', in most areas, precisely because whatever they do is seen to be of such relative insignificance to the North.

This overall perception has clearly been shaken in the special case of petroleum. And some would say that it is also at risk in respect of such issues as population, environment and nuclear proliferation. But the linkage between these issues and the rest of the NIEO agenda, despite strenuous efforts, has still been only imperfectly made. (The most effective recent attempt to draw the arguments in respect of the 'issue linkages' together for Northern audiences is the report of the Brandt Commission, but it has not yet registered any palpable impact upon underlying Nothern 'frames of reference'.) Northern policy-makers treat and prefer to treat petroleum as a special case upon which a separate bargain can be struck. In this single case they clearly accept a conflict and bargaining model of global realities, rather than leaving the outcome to a benign and harmonious world market. Beyond the level of rhetoric they do not honestly see any serious link between global prosperity (including their own) and development in the Third World.

As befits a patron when he interacts with his clients, there is a certain self-sense of *noblesse oblige* in Northerners' approa-

ches to the South. 'More in sorrow than in anger' they must respond to the Southerners' unrealistic representations and explain to them how they have erred in their understanding. There is a certain amount of charade, pretence and hypocrisy in the North's apparent willingness to engage in (endless) further study of Southern proposals. In the firm possession of truth (and power) already, they have no intention or need of discovering new truths, least of all from what to them is so unlikely a source. Negotiation and further study permits delay, and distracts attention from the 'hidden agenda' for international decision-making which is negotiated in private somewhere else entirely. Northerners often genuinely believe that logical and actual errors abound in the details of Southern proposals and that some of their proposals could, therefore, be prejudicial to development or inequitable in their distribution of benefits; but it would not and does not matter if they thought that their arguments were faultless. By now neither side believes what the other side says. The mutual credibility of ostensibly intellectual arguments in North-South debates has been severely impaired.

It is possible to conceive of a 'leap' of perception, following which the world would be viewed quite differently and the impact of all global events upon developing countries (and *vice versa*) would acquire a new and much greater significance in Northern policy-making. There are sound arguments for Northern moves in this direction in the North's own interest (Brandt *et al.*, 1980; Sewell, 1979). One frequently senses that such a leap has already occurred among many members of the North's younger generation. Glimpses of such 'vision' can sometime be seen in the speeches of Northern statesmen. And it clearly is the hope that such a new vision might be jointly arrived at and pushed downward upon traditional bureaucrats, that has motivated the Brandt Commission's recommendation of a summit conference on North-South issues. Once arrived at, such a new 'frame of reference' could give new meaning to the much-abused term of 'interdependence'.

Issue by issue, bargains which take the needs of developing countries into greater account might then be struck. Northern policy 'success' would then no longer necessarily consist of 'talking issues to death' and simply stalling any

change. Theorizing about international economic phenomena, whether market or non-market, would then place the implications of events for the economic development of Southern countries at centre stage. But even in such circumstances, the under-lying economic paradigms could conceivably still inhibit progress.

(c) Reasonable Objectives for Economic Theory

Clearly, to seek to improve the underlying economic theory of functioning of the world economy is not to seek to influence next month's policy formation. The object is a much longer-run one. If the pessimists are right, the next several years will be ones of global economic turmoil during which progress in North-South dialogue will be tortuously slow and most unlikely to produce significant change. When serious dialogue resumes and the potential for change again surfaces, it would be well to have the theoretical ground more adequately prepared than it has been in the past.

One must, of course, not exaggerate the potential power of abstract ideas or underlying 'frames of reference'. If *realpolitik* rules and if the major powers are content to leave the world more or less as it is, no amount of independent academic scribbling, no matter how brilliant, will have the slightest effect upon policy or upon change. Even those most sanguine about the ultimate power of theory and models expect their effects only in the longer run (by which time the economists concerned, following Keynes' dicta, will be either defunt or dead). Ideas and frameworks change only very slowly. Moreover, action does not always wait upon theory. Dramatic changes in actual events sometimes produce 'shock' effects in the world of ideas. More frequently, however, changing facts have little short-term effect upon basic models, and it is only a longer-run shift in the accepted model which will generate new behaviour. In the meantime, theory is usually called upon merely to rationalize or legitimize the way in which the world at present works.

2. Economic Theory in Major Areas of North-South Dispute

The developing countries have placed particular emphasis in

recent years upon reform in the *institutions* of international economy—the IMF, the World Bank, the GATT, etc.—and upon the effects of the 'institution' of the transnational corporation in private markets. It can be argued that institutions do not matter much in the face of the realities of political power and or the forces of the market. To some degree these are empirical questions, and are amenable to research exploration, through both historical and cross-sectional comparisons. Why are they not given more attention by Western scholars particularly those in the Anglo-Saxon tradition? At least in part it is probably again because of the relative insignificance of non-market institutions in their theoretical apparatus, in which that of the competitive market is *assumed* dominant while all others are assumed either constant or irrelevant or both. (There has emerged a literature on the economics of hierarchies and internal organization, as opposed to the economics of markets; but, while it has attracted some of the most powerful minds in the field, it still remains on the periphery of the economics discipline.) On the face of it, the North nevertheless regards the preservation of the present institutional mechincry as of very great importance since it seems to have 'dug in' around its defence.

Indeed, it is quite remarkable that such estimates as there are of the efficiency or redistributional costs to the North of accepting NIEO proposals are all very small. Some NIEO measures seem likely to involve 'positive-sum games' and thus to be positively beneficial to the North. Estimates of the gains or losses to the North from implementing the South's proposals are obviously subject to some dispute; but since even the largest estimates of possible costs to the North are extermely modest in the aggregate, the North's opposition must be based on other considerations. It has been suggested that Northern intransigence is not based upon the likely short-term costs of the programme, but stems instead from the fear of *losing control* of the entire system. (From this perception flows the implication that too much progress on the part of the South in the assumption of control over the global institutions could result in the North opting out of them in favour of its own independent ones.) Such considerations cannot be easily incorporated into traditional approaches to economic issues, nor can the alternative prospect of

catastrophic 'negative-sum' outcomes from continuing international disagreements. But they clearly merit more detailed investigation.

It is easier to assess the contribution of underlying economic theories by relating them to specific issues of North-South disputes; and this is how we now proceed. In this procedure, however, there is no intended implication that the broader issues for theory are less important than those which can be related to narrower policy questions.

In some instances, traditional theory has run into serious problems in terms either of the validity of its assumptions or its predictive power or both. In the case of the theory of international trade, for example, policy-makers receive little guidance therefrom to as which industries they should encourage in order to benefit from the advantages of dynamic comparative advantage; and even less assistance in their attempts to assess the distribution as between the various interested parties of the overall gains from international trade. Both rich countries and poor are hampered by the inadequacies of existing underlying trade theory as they grapple with one another and among themselves over industrial promotion and location decisions, relations with transnational corporations, and State trading bargains. In the meantime, traditional free-trade incantations are ritually repeated while policy proceeds independently through a series of *ad hoc* measures specific to individual industries and firms, in directions unrelated to any known theoretical map.

In other cases, it seems that theoretical approaches are not in such a state of disarray but that differences in the weights assigned to different objectives and differences as to the stylised facts of particular cases nevertheless lead to quite different policy prescriptions. Thus, existing macromodels in the eclectic centre of the profession can be employed to generate more or less similar predictions, provided that there is agreement as to the likely size of various key coefficients within the models. The 'structuralist' alternative to traditional IMF analyses of balance-of-payments adjustment mechanisms rests upon alternative assumptions as to the elasticities of import and export demand and supply, the behaviour of capital markets, the functioning of the price mechanism (in factor as well

as product markets) and the like. Differences in policy recommendations also stem from different degrees of emphasis upon the equity of distributional impacts. In such cases, there is greater hope that the sustained application of economic logic and the collection of more relevant empirical material might gradually achieve agreed changes in policy approches; or so it would appear from the recent efforts of the Group of Twenty-four to contribute independent high-quality professional assessments (in the form of the Dell report) to the discussion of IMF policies. This is not to suggest that underlying preconceptions as to the appropriate role of the State, the performance of markets etc. will not continue to lurk behind macro-policy recommendations or that disagreements as to the role of IMF conditionality as against automaticity will disappear. It is only to make the point that there is hope in this area that the ground within which agreement can be reached may be wider than in some other areas in which the underlying theory is inadequate.

In the case of international commodity markets, too, there may be found some rays of hope for achieving a theoretical consensus, though there is none at present. Traditional Northern analyses have been based upon the competitive market paradigm, with modifications considered on a case-by-case basis where 'market imperfections' are particularly blatant. Southern approaches might be characterized as starting from a bargaining or conflict model, more akin to bilateral monopoly oligopoly/oligopsony theories, with cases of competitive markets treated as the 'imperfect' aberrations from the general case. Both approaches are clearly correct; each in their own favourite cases. There is emerging a relevant literature within the Western tradition which, in effect, is at least partially legitimizing the Southern approach by applying the tools of empirical analysis to particular commodity markets. These theoretical 'bits and pieces' have not yet percolated through either to introductory Western textbooks or to Western economic policy-makers; but their volume may already be great enough to permit the thought that the dominant paradigm may yet shift to that of the South, particularly as the debate shifts away from price stabilization issues and towards those of marketing, processing and distribution. At a minimum, it will in future be more difficult to generalize on the basis of the traditional models.

There is a screening and sifting process by which economic analysis of different kinds, reaching different conclusions, moves from those who first prepare it to those who actually employ it in decision-making. Traditions and interests combine to produce biases in the analyses prepared and employed by different institutions and different governments. Authors know what their employers need to hear, and, if they do not provide them with what they require, their results may in any case be weeded out. Nor is the professional distribution system neutral. There are instances of quite mediocre papers, sometimes even addressing matters which are not at the centre of dispute, receiving enormous professional and popular attention while others of superior quality languish utterly neglected. One would require the skills of a sociologist of knowledge to uncover all of the reasons for these phenomena. In part, professionals are as guilty as others of seeking out and disseminating the results which their personal backgrounds and experiences lead them to welcome; the footnote references employed by rival protagonists in academic disputes are often disconcertingly lacking in common items. Academics are also inclined to feature the unexpected and counterintuitive results which, in the case of North-South issues, are more likely to discredit Southern than Northern initiatives. (There are, after all, not many Northern ones, since the North does not seek changes.) There is no doubt that negotiators make extremely selective use of the available knowledge and some are not above the commissioning of 'independent' studies which 'prove' what is required. There is in such cases only a fine line between the provision of information and propaganda.

The following discussion considers, in turn, some of the major elements in the underlying economic theory of: (*i*) international trade in manufactures, (*ii*) international primary commodity trade, and (*iii*) international monetary issues.

(*a*) *International trade in manufactures*

International trade theory has been so refined and qualified in the specialized academic literature of the subject as to have been left with very few real-world conclusions. But in the world of Northern trade policy-makers the basic tenets of

comparative advantage theory and its factor endowment corollary remain the touchstone for all debate. 'Free trade' is the standard by which performance is to be measured; and poor countries are to specialize in exports which are intensive in the use of unskilled labour and such natural resources as they may possess. Southern demands in the North-South dialogue in the sphere of trade in processed and manufactured products generally are couched in terms of the same simple paradigm of liberal trading which Northern spokesmen and the GATT secretariat espouse; above all else, the South seeks reduced Northern protectionism against Southern manufactures. But the South's own performance often fails to square with these same principles of theory.

Southern pressure for reduced protectionism is clearly not part of a call for structural reform in the international economy but simply a call for the translation of the conclusions of orthodox trade theory into Northern freer trading practice. Whether the specific targetting of the share of global manufacturing which is to be located in the developing countries by the year 2000, as found in the Lima programme of UNIDO, is any more than the necessary consequence of the fairly orthodox policies which the South is pressing must be a matter of judgement; but it could easily be interpreted to a considerable degree in such moderate terms, rather than, as it often is, as a call for massive market intervention. As will be seen later, there are nevertheless theoritical grounds for the developing countries' adoption of more aggressive industrialization strategies within their own economies than free trading principles would imply.

Fully consistent with their use of the orthodox liberal paradigm in the sphere of international trade is the South's position on the regulation of restrictive business practices at the international level. Principles and rules, or codes, governing anti-competitive practices, including those engaged in within transnational corporations, are very much in the spirit of the GATT paradigm even if they are being developed primarily under UNCTAD auspices. Provisions of this kind were found in the original Havana charter for the International Trade Organization, and many Northern policy-makers have genuinely regretted that they were not included in the GATT.

In the real world of international trading practice, many of the assumptions strictly required for the policy conclusion that 'free trade is best' are, of course, violated. Among the factors that must vitiate the conclusions of the simple trade models are : scale economies, market concentration (oligopoly and oligopsony), intra-firm trade, significant transport costs, state trading, product differentiation and non-price competition, unequal technological capacities, costs of adjustment as between different productive structures, imperfect information, and existing tariff and non-tariff barriers. Among the profoundly important structural features of the international trade of the 1970s and the 1980s is the dominant and rising role of transnational corporate activity therein. The developing countries have been particularly concerned with the implications for them of this particular institution for global management, within what are ostensibly 'free markets'; their pressure for 'liberal' trading is directed no less at the North's transnational corporations than at Northern governments.

The construction of development-oriented industrial policy, whether in rich countries or in poor, proves to be extraordinarily difficult in such a 'second-' or 'third-best' world. Particularly troublesome have been the handling of 'learning' effects. While it is relatively easy to identify the major 'losers' in which a country is relatively inefficient, it is extremely difficult to determine those industries in which one may best *acquire* a future comparative advantage. How then is one to decide upon a rational and globally efficient allocation of the world's industry ? The simple static Heckscher-Ohlin formulations based upon relative factor endowments simply do not carry one far enough ? If productivity improves with experience, early-stage protection of apparently unsuitable industries or firms may in the longer run be sensible. If such learning is industry-specific it also would seem to call, other things being equal, for industry specialization rather than diversification in the industrial sector. The implications for trade policy, and for development impacts, of a theory which builds upon the assumption of industrial learning differ sharply from those of the 'standard' model. Whereas the latter suggests that all labour surplus developing countries should specialize in labour-intensive industries, the former implies that, as experience and scientific

and technical resources differ among countries, so does the capacity to 'learn' through different kinds of industrialization; thus countries which are further along in their capacity to learn will benefit from different industrialization strategies and their pursuit will probably open up even wider gaps in the short to medium term between them and less fortunate developing countries.

The more effective incorporation of scale economies—as well as learning effects—into the modelling of international trade will also significantly influence the theory's policy implications. Since the gains which can be realised through increasing returns to scale, where they exist at all, can be expected to dwarf those attributable in traditional theory to marginal reallocations of production and consumption, it follows that in many industries 'big is beautiful'. Scale economies may be found in information processing, financing, marketing and distribution, and resarch and development, as well as in production. From theories building heavily upon the fact of scale economies and learning effects one may derive the conclusion that trade should be 'free' and conducted overwhelmingly by very large trading units, whether private or public.

Where comparative advantage is diffused or unclear, and information is imperfect, such underlying theory could imply that large size or specialization are what matters most. It may be preferable quickly to specialize in *something* rather than endlessly arguing the relative merits of alternative industries on the basis of benefit—cost calculations of dubious reliability. Technological characteristics may provide as good a set of 'rules of thumb' for the selection of new industries as any other, *e.g.*, 'appropriateness' of products, potential for learning effects, availability of scale economies etc. The truth of the matter is that, although such an approach may seem a counsel of despair and an invitation to planning approaches which say that 'anything goes', knowledge of the roots of future relative industrial efficiency remains remarkably scant. All of these considerations also have obvious relevance to schemes for South-South industrial co-operation and joint industrial planning.

These scale and learning effects are among the underlying theoretical explanations for the rise of transnational corporations and State trading in international exchange. The selective

promotion of freer trade by Northern policy-makers has amounted, in substantial degree, to the encouragement of the growth and geographic interpenetration of Northern-based transnational corporations. Theory has lagged substantially behind practice in this realm. If the allocation of resources both within and across economies, the determination of patterns and prices in international trade, the burden of adjustment to recession or other global shocks, and other such major issues are to be substantially affected by the managerial decisions of large transnational firms rather than through the interplay of market forces, then more theory relevant to their decision-making processes is required. Attempts must be made to model the interactions between large transnational corporations and large (primarily Northern) national governments, and the implications of their behaviour and their bargains for smaller actors. For this purpose, it would seem fruitful to draw much more upon theories of industrial organization, managerial decision-making and bargaining and game theory, rather than attempting to 'patch up' existing trade theories with altered assumptions as to factor mobility, factor intensity characteristics, and the like. (Certainly the assumption of internationally immobile capital is, in any case, no longer tenable.)

It can be argued that the growing and interacting roles of large governments and large firms in international production and exchange can render much more plausible the eventual introduction of the international taxation systems which, if properly constructed, could help to overcome some of the problems which transnational corporate activities now create. Transfer price manipulation and arguments over the disposition of total tax revenues could be eased by international tax regimes which should now increasingly be explored by fiscal theorists rather than just by tax accountants and lawyers, as the importance of these issues continues to mount.

A further issue arising for Southern trade policy-makers in the context of such amended theories of international trade is the future productivity of the strategy of 'export-led' growth. If learning effects dominate in the industrial development process, and in the determination of dynamic comparative advantage, then specialization for export either because of factor endowment advantages or because of scale economies

may or may not be optimal policy. In a world of slower Northern growth, greater numbers of developing countries coming on-stream with industrial exports, transnational corporate control of much of world trade, and protectionism in those sectors in which transnationals are weakest, export-oriented industrialization in the South may either bog down in worsened terms of trade or achieve success only at the cost of increasing transnational corporate control of the Third World's national economies. For many developing countries, no less important than the terms of GATT bargains or Northern governments' trade policies will be those of the daily bargains to be struck with the foreign firms which produce or market their manufactured exports. For the purposes of understanding or influencing such bargains either with private actors or those over the size and terms of quotas and marketing agreements to be negotiated with foreign governments, theoretical underpinnings remain slight indeed.

It would seem that 'conventional' economic analysis is potentially much richer than the caricature of it generally used in policy-makers' speeches to buttress free-trade—anti-dirigiste positions, but that a 'revised theory' is not yet sufficiently integrated to form a coherent whole which would be immediately relevant to North-South trade negotiations or policy formation. Moreover, the potential richness derives much less from theoretical refinements of the neoclassical model of international trade, than from the insights offered by resort to industrial organization, learning and bargaining theories. The integration of these theories with international trade theories, incorporating the many qualifications necessary for realism, is perhaps the most formidable task now on the agenda for furture research.

(*b*) *International primary commodity trade*

Primary commodities have been at the centre of attention in the NIEO negotiations since they began. One of the cornerstones of the NIEO was to be the Integrated Programme for Commodities including the Common Fund : the former a giant stabilization and development programme for 18 commodities of special export interest to the developing countries, the latter the central financing institution which would tie the various

commodity programmes together into a cross-subsidizing package.

Although price stabilization objectives were by no means universally regarded as the most important ones in the commodity sphere, negotiations came to centre upon them. A substantial body of neoclassical literature existed, demonstrating that, under particular assumptions, price stabilization would be good for the world as a whole but harmful, in terms of income effects, either to producers as a group or consumers as a group, depending upon whether price instability originated from shocks on the demand or the supply side. An additional strand of this literature demonstrated, again with carefully stipulated assumptions, that the stabilization of prices would stabilize or destabilize the incomes of the producers as a group depending upon whether price instability originated from the demand or the supply side. The complexity of the issues is illustrated by the fact that, under the assumptions typically employed, the same circumstances that would achieve income increases for the producers as a group through price stabilization would destabilize their total incomes. Considerable attention was paid in Western capitals to the studies which demonstrated these results, and Northern governmental positions on the Integrated Programme, the Common Fund, and individual proposed international commodity agreements appeared to have been influenced by them. The ambiguities and trade-offs implied in these results created occasions for endless debate, and called into question the wisdom of the South's pressures for price stabilization on the ground that it frequently might not serve the South's own interests.

Unfortunately the 'results' of the theorizing described earlier are misleading. They are extremely sensitive to the detailed assumptions of the underlying models, as has been carefully demonstrated by further theoretical analysis which has continued within the neoclassical tradition from which the original models sprung. The range and implausibility of the assumptions required to arrive at conclusions which have been cited in innumerable Northern policy position articles are truly breathtaking. They include particular shapes of both demand and supply schedules (they must both be linear); particular kinds of demand and supply shocks (they must be additive to the

relevant schedules and not multiplicative); instantaneous reactions of supply and demand to price alterations; and complete stabilization of prices at a fixed price equal to the mean of the prices which would have prevailed in the absence of intervention. Modification of any of these assumptions so as to approximate reality more closely, or simply to test sensitivity, results in the collapse of the widely cited conclusions. These qualifying theoretical contributions have not yet significantly penetrated the Northern policy-makers' perceptions. Needless to say, none of these theoretical contributions questions the underlying model of free and competitive markets, which is required to permit the employment of supply and demand schedules as representations of reality in the first place. Nor do they address the *real* problem of 'market failure' created when speculation and panic buying and selling in commodity markets generate periodic 'crises' which must somehow be 'managed'.

Whether these debates over the effects of price stabilization were of much real significance to the commodity negotiations is, in any case, an open question. Certainly negotiators pick and choose among available sources to find 'objective' sources of support for positions which they have already arrived at on totally different grounds whenever they can do so. In at least one instance (the copper negotiations), one set of Northern negotiators discarded the (public) results of the very econometric modelling exercise which they had earlier insisted upon, when it failed to yield the expected, and 'required', conclusions.

At real issue are typically such matters as the interests of producing and trading firms of different nationalities, strategic interests in supplies, concerns over the eventual effects upon the level of prices and the size and allocation of export quotas. In the longer run, ownership and control of processing, marketing and distribution are clearly much more important concerns than price stability. Northern policy-makers' direction of attention to the theoretical issues surrounding the effects of price stabilization deflected it away from these more fundamental questions. They were and are able to do this at least in part because knowledge of the actual structural characteristics of commodity markets is still so scant. Most commodity markets are characterized by a high degree of concentration on both the buyers' and the sellers' sides. Many are highly segmented in

their structure, with intra-firm trade within transnational corporations, State-to-State trading arrangements, long-term contracts among private and State transactors, and 'free' residual markets all operating at the same time. Sufficient proportions of world commodity trade are 'managed' either by private or by State actors as to make nonsensical the exclusive resort to models which imply only atomistic and competitive participants on free and unfettered markets, the models which still dominate Northern policy makers' presentations and apparent perceptions.

Southern approaches to commodity questions are based less on detailed knowledge as to the actual functioning of markets than on a fairly crude perception that prices are set on the basis of bargaining and conflict rather than through neutral and impersonal free and competitive markets. Their paradigm is quite different from that which Northern spokesmen employ, and in this instance it is often at least as accurate. Both Northern and Southern spokesmen can point to specific instances in which their own simplified 'model' best describes reality. While it may be difficult to agree on which is more generally accurate, it should by now be possible to build a middle-ground theoretical structure which eclectically takes both market and bargaining approaches into account.

To adopt, even in part, a bargaining model of the determination of international commodity prices is to resurrect the controversial issue of the developing countries' terms of trade and the possibility of indexing their export prices to the prices of their imports. Even in the citadels of market orthodoxy, domestic agricultural prices are determined by political processes as well as purely market forces. Such possibilities can be realized regardless of the make-up of the developing countries' export or import bills; but, because of the Prebisch-Singer theoretical backing from which the proposals originally sprang they have been couched in terms of linking the prices of primary product exports of those of manufactured goods imports. That such 'stabilization' of certain relative prices (actually, the proposals were intended merely to set a floor to real commodity prices) can have allocative effects is beyond dispute. What exactly they would be depends upon a host of assumptions as to government policies and private responses. Possible social

'inefficiency' has never been, however, a significant element in the striking of bargains over domestic distributional questions. Conventional economic theory has been employed to demolish the proposals for the international indexation of primary commodity prices on the grounds of their inefficiency effects. The basic irrelevance of such considerations in bargaining situations is demonstrated by the present general interest in quite similar proposals for the stabilization of the price of petroleum. Once again, conventional economic theory still has little contribution to make to the analysis of bargaining.

What is sorely lacking from the underlying theory of North-South trade either in primary commodities or in manufactures is an adequate explanation (or justification, which is a much more controversial matter) of the distribution of the gains therefrom. The Prebisch-Singer analysis attempted to analyse it through the concept of the terms of trade, and thereby addressed the effects of changes through time. Emmanuel has based his analysis upon the international immobility of labour and focuses upon labour's entitlement to equal remuneration for equal productivity, regardless of its location.

Neither have proven persuasive or rigorous enough to have been incorporated into the central 'core' of trade theory, although both have clearly an enormous intuitive appeal. Here is another rich area for theoretical exploration. In this connection, the incorporation of transnational corporate activity into the relevant models, as was suggested earlier, would seem to call for new concepts of the terms of trade which are based upon the national 'retained value' from exports rather than conventionally measured prices for export products.

(c) *International monetary issues*

Those engaged in current North-South debates over international monetary issues while they may argue over the finer points, all understand and employ basically the same underlying economic models of macro economics and balance-of-payments adjustment. There is neither paradigmatic clash as in the case of commodity market analysis nor rampant confusion and massive dissonance as between theory and practice as in the case of trade in manufactures. What is at issue is, fundamental-

ly, the distribution of financial power and control; and the objectives of development policies. At a more prosaic level, there are also often differences as to the 'stylized facts'.

Developing countries, as poor countries which are faced with current account deficits which are not always of their own making, seek monetary reforms which will ease their balance-of-payments financing difficulties. They seek greater symmetry of balance-of-payments adjustment responsibilities so that countries in surplus and reserve currency countries share short- and medium-term adjustment costs. They seek greater resort to SDRs as the source of international liquidity expansion and greater shares of their distribution, so as to acquire a higher proportion of the seigniorage from 'money creation' which at present accrues to reserve currency countries and gold producers and holders. Not surprisingly, they also seek greater influence and voting power within the IMF so as to push the reforms which they favour.

The most important immediate source of North-South disagreement is over the terms of developing countries' access to international finance, and specifically to the resources of the IMF. (Since commercial banks may await the IMF 'seal of approval', much more than IMF lending may be at stake.) The 'conditionality' question involves disagreement as to : (*i*) the appropriateness of the present degree of conditionality in IMF lending, and (*ii*) the terms of the conditions which it typically imposes.

In the first instance, the developing countries view the IMF's approach as excessively rigid and excessively influenced by the assumption that balance-of-payments difficulties are the products of domestic monetary mismangement; where balance-of-payments deficits are the product of external shock rather than of domestic mismanagement there should be a *prima facie* case, they sensibly argue, for unconditional balance-of-payments support. This is particularly evident if these external shocks are temporary ones—and not necessarily those of only a year or two's duration; but, even if they are permament and long-run adjustment is necessary, IMF support should be assumed to be readily available to assist the process. The principles governing such low-conditionally balance-of-payments support have already been recognized in the IMF's compensatory financing and oil facilities. At present, the availability of low-conditiona-

lity financing is inadequate; the result is resort to private banks and/or inappropriate deflation.

Secondly, when the IMF recommends on domestic policies it has frequently carried with it the biases described earlier as implicit in conventional neoclassical theory—it overemphasizes market measures and downplays the influences (real or potential) of such institutions as the State or the transnational corporation; and it does not concern itself overly with the distributional implications of alternative macroeconomic policies. Nor does it consider, though this is a matter of wider global concern, the need to maintain longer-run development momentum in the poorer countries. It, therefore, has tended to apply a fairly standard set of policy prescriptions to *all* countries: reduced government expenditures (particularly cuts in social service spending, food subsidies, and wages, since these are both more visible and more politically acceptable to many governments than cuts in defence budgets or civil service salaries), higher tax rates, domestic credit ceilings and higher interest rates, liberalization of exchange controls and devaluation; all of these are to be applied relatively quickly in a 'shock' rather than in a 'gradualist' manner.

This uniform deflationary package may be quite appropriate to some circumstances. It is most unlikely to be appropriate for all. A powerful and theoretically rigorous 'structuralist' critique of the IMF's standard package now has been constructed in Latin America. It addresses the impact upon income distribution, total aggregate demand, inflation, and the balance-of-payments, and concludes, on the basis of assumptions which are not implausible (notably as to elasticities of demand and supply, pricing systems, wage-setting mechanisms, and capital flows) that the IMF package can be counterproductive in the short to medium run and that the longer run in which events might improve is not guaranteed ever to materialize. Similar criticisms of IMF rigidity can be heard in Asia and Africa as well. The critique of the IMF package is not a critique of adjustment policies themselves (although in popular discussions these matters are sometimes confused) but of the particular package which typifies the IMF approach. Recent revisions of IMF guidelines suggest that at least its Executive Board, if not yet all of its line personnel, now recognizes that the nature and

timing of adjustment programmes must be tailored more closely to fit the circumstances of particular countries. The elaboration of 'better' policy packages is still in its infancy and deserves further study.

The distinction between finance for purposes of balance-of-payments adjustment and for development is not always an easy one to draw. It is particularly difficult when recessions are longer-lasting and when there are major shocks such as oil price increases which require long-term adjustment. In such circumstances, balance-of-payments finance for the purpose of 'riding out' longer storms or for easing the process of structural (supply) adjustment begins to merge into development finance. When the IMF offers longer-term adjustment loans and the World Bank offers structural adjustment loans, both are employed for essentially the same purposes.

In recent years there has been a sharp increase in the relative importance to the developing countries of private money and capital markets. Commercial banks operating in the Eurocurrency markets have channelled very large sums to the more creditworthy of the developing countries. The criteria for the allocation of these resources, as derived from standard portfolio theory and applied by unregulated private banks, deviate significantly from those which the international community might apply if it controlled the disposition of those resources, among other reasons, this is because the objective function in that community's decision-making does not, as does the private portfolio theory, ignore income distribution. Thus, in particular, practically all of the money lent by the Euromarket to the Thrid World has gone to the middle-income countries, and none to the poorer ones. As in all asset markets, changes in investors' expectations which themselves are vulnerable to the herd instinct, can generate significant 'lurches' into and out of particular kinds of lending, with the result that the amount and composition of commercial bank lending to particular developing countries is inherently unstable. At the same time the concentration of these banks' lending on so few countries, and the sheer magnitude of the resources so channelled, raise concern for the stability of the whole international financial system should one of the 'select' countries actually be unable to repay its debts, causing some of the banks themselves to risk

failure. Here, accepted Western macro-economic theory combined with theory of the development effects of income distribution, indicates strongly that the view held by many in the international financial community, that the private capital markets have handled and can continue to handle such recycling well, may be seriously in error. Deserving of further theoretical exploration are the implications of regulation (in order to reduce the moral hazard problem) as against *laissez-faire* policies in internal financial markets for the interests of the developing countries.

None of the above monetary disputes will cause great anxiety to orthodox theoreticians or to the policy-makers who negotiate these North-South issues. The discussions proceed on the basis of models which are broadly intelligible and acceptable to both sides. Disagreements are either the result of differences in judgement as to the 'stylized facts' in which case they can presumably be resolved by further detailed research and analysis, or the product of underlying conflict over the international distribution of income and power. In the latter case, again, a theory of bargaining is required for a more complete understanding as to what is actually taking place.

3. Recommendations for further Research and Activity

The growing interdependence of national markets for goods, services, technology, capital and some kinds of labour have increasingly limited the capacity for national sovereign governments to pursue fully independent policies. Just as the various actors within nations are interdependent and governments have been created for the purpose of assigning and enforcing rules which are in the social interest, so at the international level is there a growing need for a global manager to 'rein in' independent national actors, including governments, on the world stage. (And just as, at the national level, governments are pulled and hauled in their policy formation by special interests of divergent power, so it would also undoubtedly be for any global authority.) 'International economics' must be replaced by 'global economics' in theoretical analysis. Ultimately we are likely to acquire more effective global government which can then employ it. The transnational corporations

and, to a much lesser extent, the international trade union secretariats are already conducting their activities on a world basis—with effects which are still quite imperfectly understood. It is ironic that while governmental activities have steadily grown at the national level in the mixed economies of the post-Second World War period, and this growth has generally been considered to be legitimate, there has been no corresponding expansion of governmental activity at the world level where unrestrained market forces and the law of the jungle still seem to be considered more legitimate than any threats on the part of global authorities to national sovereignties. Economic theorists and modellers must surely now begin to apply their general tools of analysis to the problems of the one 'closed economy' which, until interplanetary travel opens up, still remains: that of the entire world. Only when national policy-makers begin to employ such comprehensive 'frames of reference' in their own decision-making can one expect to find international issue resolution on the basis of higher global interests. Existing attempts to model the entire world—in the UN, the World Bank, the OECD, the ILO and the Bariloche Foundation, for instance—are still fairly crude, mechanical and apolitical.

In the shorter run there is a great need to improve theoretical understanding of the individual economic issues in North-South dispute, and to raise the quality of the economic analysis which is brought to bear upon them. In this Chapter, attention has been particularly focused on the shortcomings of the economic models implicitly or explicitly employed by Northern negotiator. It would be ridiculous to attempt to argue that only the North's negotiators have been biased in their use of available theory or that their implicit models are more rigid or crude than those of others. Nor, despite their obvious efforts to propagate their views, are Northern policy-makers disproportionately guilty of conscious or unconscious propagandizing. On the contrary, it is the very 'liberalism' and catholicity of Western traditions that permits us to criticize the way in which its policy-makers employ their knowledge. But there can be no doubt that in the North-South arena, the North has far, far more than its share of the 'good lawyers' Academia, the media and government spokesmen have together so swamped the advocates for the South with their (too crude) arguments that

they have created a mood within which Southern arguments are almost automatically ascribed to 'unreason', or 'bad economics'; they are assumed to be 'illegitimate' almost as soon as they are made, and it becomes Northern sport to see who can first firmly prove them so. The transnationalization of knowledge through postgraduate training, scholarly journals, and the press furthers the legitimization of Northern positions and extends even into the academic institutions and governmental offices of the South. Intellectual hegemony may be no less powerful, enduring, and ultimately defensive of privilege than any other kind.

Much of the economic analysis employed in the backing of particular cases *is* complex. The North's supply of academic and other professional talent for the purpose of making its case, or at least legitimizing it is enormous—far superior to that available to the policy-makers of the South. Whether the most important casemakers, are lawyers or economists, the South is clearly *always* at a major disadvantage. As one participant in our seminar vividly put it' it is often possible for Northern policy-makers to denigrate well-informed and cogent Southern arguments with statements which amount to saying, 'Hocus-pocus; mumbo-jumbo; therefore you are wrong.' If what we are observing is essentially a bargaining relationship rather than a search for truth, there must be a presumption that, to the extent that arguments play any role at all as against the realities of power, the outcomes will be consistently skewed against the least prepared. Both the search for balance in knowledge, and sympathy for the underdog, should generate far more professional effort to pick holes in Northern rather than Southern arguments, even if it does not pay as well.

Such questioning of orthodox paradigms as there has been tends to appear either in specialized professional journals, which do not receive wide circulation, or in the 'radical' literature, which is not read by policy-makers. The markets for intellectual fare—to use neoclassical terminology—are highly segmented ones; and, as usual, such market imperfections generate social inefficiency. It is not possible to prescribe an alternative core model to which all 'right-thinking' analysts should immediately shift, for it does not exist. But it is important to address the deficiencies in the current dominant models, note their dispro-

portionate influence, and call for attempts at reforms. One must attempt somehow to integrate more effectively the better and more relevant 'bits and pieces' on the frontier of the periphery of economic theory into the relevant 'core' approaches. One must in short, do what one can to reduce the dogmatism of the intellectually untravelled.

In areas where there is disagreement as to the 'stylized facts' there in an obvious need for the careful assembly of more detailed information. This may be a particularly fruitful area for collaborative North-South research, particularly if research partners are not selected for their known bias towards 'desired, outcomes. As has been seen, this may yield especially high returns in the sphere of commodity market functioning and balance-of-payments adjustment in different types of developing countries.

Among the specific areas relevant to the North-South and NIEO disputes which seem particularly deserving of more theoretical or modelling attention are the following:

(*a*) analyses of bargaining—among individual governments, blocs of governments, large firms, interest groups within and across national boundaries, and combinations of all of them; the world has become at least as much a 'bargaining society' as a 'market economy';

(*b*) analyses of the distribution of the gains from international trade, as between nations, firms and component groups and classes within nations;

(*c*) analyses of international trade which incorporate elements of industrial organization theory, the theory of managerial decision-making, and bargaining theories, so as better to capture the roles played by transnational corporations, the major national governments and the interactions among them;

(*d*) analyses of the functioning of imperfect and segmented world primary commodity markets; and commodity processing, marketing and distribution activities;

(*e*) analyses of dynamic comparative advantage which incorporate such elements as industrial learning effects at different stages of development, scale economies and the growth of firms, and may enable developing

countries more effectively to 'pick the winners', and to improve their national or regional industrial planning;

(*f*) analyses of the size and distribution of the costs of adjustment to both macro-economic and relative price 'shocks' in global or developing countries' economic systems;

(*g*) analyses of the unfettered and regulated functioning of international financial markets and their development implications;

(*h*) analyses of transnational corporate decision-making and behaviour in general, and in different specific industries and circumstances, and their development implications;

(*i*) anaylses which relate the questions of power and control of institutions to the traditional ones of income maximization and risk aversion, considering the possibility of trade-offs and the role of time;

(*j*) analyses of political economy of governmental decision-making in matters of international economic policy.

In each of these areas there is an obvious parallel need for empirical research to enrich and enlighten the theorizing process.

Progress will be achieved, if at all, only through a gradual process of experimentation, exchange of ideas, intellectual agglomeration effects, and continuous testing and revision. Bridge-building across intellectual and experiential chasms seems especially likely to prove productive. Among the ideas that arose from our group's deliberations on the matters were the following:

(*a*) it is especially fruitful to conduct discussion between those who are very well-versed in the details of relevant theory in particular issue area and those who were themselves directly involved in policy formation and negotiation (in the Refsnes seminar, this was most effective in the discussion of commodity issues);

(*b*) when introducing fresh concepts or approaches, even when persuaded that older ones should be replaced, one

should seek to translate them into the more familiar terminology so as to facilitate communication, understanding and ultimately persuasion;

(*c*) collaborative research between economists who begin from different paradigms and preferably come from North and South, should be encourged or even commissioned, in areas like international trade theory or commodity market functioning where 'breakthroughs' are most required;

(*iv*) consideration should be given to the sponsorship of a series of detailed surveys of 'the state of the art' of underlying theory in each of the major North-South issue areas so as to bring 'laggards' upto date and encourage the pushing back of the theoretical or empirical frontier in the weakest segments of knowledge; if one author were up to the task, across-the-board book-length survey might do as well or even better; in the meantime, perhaps effort should be devoted to the collection of already published works into a book of relevant readings on these subjects.

The task of building new theory is not an easy one. Nor have attempts to prescribe approaches to the development of knowledge ever been very successful. But dissatisfaction with what one has can be a powerful motivator; at present, it is still much more widespread in the South than in the North. This report has not been designed, to use an old phrase, 'to afflict the comfortable and comfort the afflicted' in the North-South dialogue. Rather it is intended to prod academic thought and effort into particular directions. The world now badly needs more economists and others working to improve existing theories of the functioning of the global economy, and to disseminate more effectively the full range of such knowledge as already exists.

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4

Past, Present and Future of the International Economic Crisis

OSVALDO SUNKEL

I

The Current Dilemma

The development policies of Latin America since the Second World War have been inspired by two main theoretical sources : post-Keynesian developmentism and neoliberal monetarism. The first is associated with R. Prebisch and ECLA and the second with M. Friedman and the Chicago School. Obviously, reality is always more complex and finely-shaded than analytical distinctions, but the latter fulfil a useful function of conceptual clarification. The purpose here is to single out two theoretical conceptions that inspire different policies, and two historical periods, in which first one prevails and then the other, until they culminate in the current crisis, when once again they dispute the leading role.

Post-Keynesian developmentism places emphasis, in internal affairs, on the development of the material productive forces of industry, of agriculture, of the basic social capital and human resources infrastructure; externally, on regional integration and public international co-operation. The State and planning play

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a major role in the promotion of social and economic development and in international relations. This approach prevailed during the 1950s and 1960s with varying degrees of intensity and coherence in different countries.

Neoliberal monetarism, with its emphasis on the liberalization of the money, goods and services and labour markets, on external openness in respect of trade and finance, and on the development of internal financial systems, and its promotion of private and market economic agents in preference to the State and to planning, began to establish itself in the 1960s and prevailed in many countries in the 1970s.

This transition—in some cases moderate, pragmatic, complex and intelligent, but not so much so in others—reached extremes of ideological radicalization in a number of instances, particularly in the countries of the Southern Cone. Although these national differences were determined, to a great extent, by the historical experience and the economic, social and political structures of each country, the general trend towards a transition from development strategies that were more protectionist and State-controlled to others more open to the exterior and privatizing was undoubtedly connected with the changing international scenario of the post-war decades. The great world depression of 1929-1932 and the Second World War initially encouraged developmentist strategies. In contrast, the process of expansion of the international private financial system begun in the mid-1960s accentuated the influence of monetarism, culminating in the present international economic crisis. This crisis now confronts every country, more or less urgently, as the case may be, with a crucial economic policy dilemma: either submission to an extremely severe recessive adjustment of a monetarist character, such as transnational financial capitalism is trying to impose, or recovery and maintenance of a sufficient degree of freedom to implement reactivating policies in the framework of a strategy based on development of the national and regional productive and social forces.

II

The Privatization of the International Financial System

In my opinion, there is a close relation between the degree

of integration or disintegration of the international economy—and in particular of the international financial markets—and the degree of protectionism or openness of the national economies, their resource allocation criteria, their options between consumption and investment, the form taken by their power structures and the degree of State intervention, all of which is reflected in conceptual and economic policy reformulations.

During the period of outward-looking development, which extended from the nineteenth century upto 1930, there was a close economic, commercial and financial integration at the international level which resulted in the predominance of the pound sterling—a currency which enjoyed strong economic as well as military backing—, and found expression in wide and increasing international flows of trade, credit, investment and even migration. This world set-up of the British Empire and its zones of influence, such as Latin America, was accompanied by national situations of little protection and very open economies, both at the centre and at the periphery. This led to a process of allocating resources in relation to comparative advantages. As the comparative advantages acquired by the centre were concentrated mainly in manufacturing industry, its export trade became specialized in manufactures, and as the countries of the periphery had not gained similar advantages, they specialized in sectors characterized by intensive use of natural resources and labour.

To this structural situation corresponded a specific organization of political power : a dominant coalition was formed by the exporter sectors (manufacturers at the centre, raw materials producers at the periphery), the importer sectors (raw materials in the centre, manufactured goods at the periphery), the big businessmen and, above all, the financial sectors. Their interest in maximizing international trade and finance resulted in relatively little State intervention in the economy, except for the purposes of creating the infrastructure services required by the outward-looking growth model, or imposing the rules of the game. *Laissez-faire* policies predominated, and their rationalization in ideological and theorical terms—*i.e.*, the classic liberal theory of market allocation of resources both at the national and at the international level (static theory of comparative advantages).

This stage of capitalistic development ended in the great depression of 1930, followed by a long interregnum preceding the United States hegemony that arose after the Second World War. During this period some profound readjustments took place; international markets disintegrated; the international private financial market disappeared, as did direct private investment; and only a few modest trade flows remained. The generalized crisis in trade, finance and international private investment was manifested in all countries in serious imbalances on their international transactions and in a severe depression of economic activity. Most countries withdrew from the international system and isolated their economies by applying protectionist measures in the field of trade and exchange controls in that of finance.

It is important to stress that this protectionism occurred simultaneously in the centre and at the periphery. Import substitution was not a perverse invention of the peripheral countries or of Prebisch and ECLA, as some economists of little historical culture seem to believe : it was also, and at the same time, the recourse to which the central countries turned in order to meet the crisis. Each country protected and encouraged what it had formerly imported : the central countries essentially protected their agriculture, and thence arose a whole institutional apparatus of support and promotion of agriculture which is still—50 years later—a very serious obstacle to international trade and the agricultural production of the Third World.

In our countries, for their part, the 1930 crisis led to generalized protection of manufacturing, and marked the beginning of a phase of deliberate development of import-substituting industry. A gap was thus created between the internal and the international price systems, reflected in a change in the relative prices of agricultural commodities and industrial goods. Consequently, an adjustment took place in the allocation of resources : at the periphery towards the development of manufacturing and at the centre towards agricultural development. This process did not happen automatically, but through decisive State action and a rearticulation, in both types of countries, of the hegemonic coalition of power within the ruling classes. This coalition dominated by exporter, importer, business and financial interests, was ousted—not without

radical political conflicts—by a coalition based mainly on entrepreneurial sectors, middle-class groups and the organized working classes, a change that was reflected in the importance attached to production, employment and income distribution in overcoming the crisis.

These were the decades from the 1930s to the 1960s, which were characterized in many Latin American countries by governments that subscribed to active State intervention in support of industrial development; investment in infrastructure; some structural reforms; income redistribution through an increase in social expenditure; and public policies favouring the middle income and low income groups.[1] In the international field regional integration and co-operation were actively fostered, as was public technical and economic co-operation between developed and underdeveloped countries, though this did not preclude denunciation of the inequities and injustices of the system of international economic relations.

With the appropriate reservations, the post-war picture of the industrialized countries—the United States, the European countries and Japan—is not so very different. There too the State assumed a leading role in respect of the reactivation and reconstruction of the economy; the technical development and modernization of the productive forces; the correction of unfair income distribution by application of the concept of a Welfare State; and the adoption of systematic full-employment policies. In Europe, moreover, very marked emphasis was placed on regional integration and co-operation.

The institutional modernization of the State and the practice of planning figured in both developed and developing areas as guiding instruments that modified and complemented the market. The economic theories in vogue revolved around economic growth in the centre and development policies in Latin America, whether the subject of planning acquired outstanding importance. Theoretical discussion was focused on criticism of traditional neoclassical and Keynesian (static) economic theory, in relation to the need for a growth theory (dynamic and post-Keynesian), structural change and development.

While this was occurring on the internal stage, the international economic system was also trying to recover from the

1930 *debacle*. During the next decade, international trade toned up, but private investment, both direct and financial, had completely disappeared. Instead, some public institutions were set up, such as Eximbank in the United States to facilitate export expansion. Faced with the disappearance of the international private financial system after the end of the Second World War, an international financial system of a public character was created under the Bretton Woods agreements, including, in particular the World Bank and the International Monetary Fund (IMF). To these organizations were added later on the regional development banks such as the Inter-American Development Banks (IDB), the public bilateral and multilateral financial aid institutions and the State agencies responsible for extending export credits. By the mid-1960s the establishment of a public international financial system had been completed.

During the 1950s and 1960s direct international private investment reappeared, now embodied in the transnational corporations, which at first were solely North American, and later European and Japanese as well. They took advantage of the national markets created in the peripheral countries under the aegis of protectionist measures and industrial development policies, jumping commercial barriers by establishing local subsidiaries.

This was the start of a process of transnationalization of the structure of production, which subsequently extended to patterns of consumption, life styles and culture.[2] The close of the 1960s saw the first steps in the re-creation of an international private financial market, whose expansion during the following decade attained extraordinary dimensions. A new period of international economic integration—this time of a transnational character—now dawned, beginning with the recovery of trade and the transfer of patterns of consumption and life styles, continuing with the expansion of transnational private investment and patterns of technology and production, and culminating, especially after 1973, in the creation of a transnational financial market of a private character, controlled by a few big transnationalized banks, which gradually acquired great freedom of manoeuvre as they outgrew supervision by the national financial authorities.

It is of interest here to underline five central characteristics of this process. In the first place, the re-creation and accelerated expansion of this new international capital market, which had disappeared 40 years before and which grew from US $12 billion in 1964 to almost US $700 billion in 1982 (see Table 1). Secondly, the privatization of external financing: in 1961-1965, 60% of the inflow of external financial resources into Latin America was of public origin and 40% came from private sources: in 1978 public financing had shrunk almost to nothing—7%—and the share of private financing had risen to 93% (see Table 2).

Table 1 : Net size of the Euro-Currency Market 1964-1982

End of year*	Net size of narrowly defined Euro-currency market (billions of dollars)
1964	12
1965	13
1966	16
1967	21
1968	20
1969	44
1970	57
1971	71
1972	92
1973	132
1974	177
1975	205
1976	247
1977	300
1978	375
1979	475
1980	575
1981	661
1982	686

Source: Stephany Griffith-Jones, *International Finance and Latin America : Past and Future,* ALIDE (forthcoming), Table 7.

*Refers to December for the years 1964 to 1981, and to September for 1982.

Table 2 : Latin America : Percentage Structure of Net Inflow of External Resources, 1961-1968[1]

Percentage structure	Annual averages 1960-65	1966-70	1971-75	1976	1977
I. Net public inflow	60.2	40.1	25.2	19.6	12.0
A. Multilateral	19.5	15.7	13.4	14.4	7.4
Development	16.6	17.1	11.6	6.6	8.4
Compensatory	2.9	—1.4	1.8	7.8	—1.0
B. Bilateral	40.7	24.4	11.8	5.2	4.6
From United States	36.9	23.6	6.8	2.6	1.7
Other countries[2]	3.8	0.8	5.0	2.6	2.9
II. Net private inflow[3]	39.8	59.9	74.8	80.4	88.0
A. Banks[4]	2.1	9.3	43.8	61.0	48.3
B. Suppliers	7.7	13.8	2.3	3.7	5.8
C. Bonds	5.0	2.5	2.5	3.3	14.8
D. Direct investment	25.2	33.3	26.2	12.4	20.1
III. Percentage total	100.0	100.0	100.0	100.0	100.0
Total actual level (thousand of dollars)	1,575.8	2,641.3	7,561.9	1,5301.5	1,5637.0

Source : Stephany Griffith-Jones, *International, Finance..., op. cit.*, Table 4.

[1]Includes the member countries of the Inter-American Development Bank and its subregional agencies.

[2]Includes the socialist countries and the OECD members except the United States.

[3]Includes credits for nationalization.

[4]Includes financial institutions other than banks.

Thirdly, the predominance of the banking system in this capital market: in 1961-1965, out of the 40% inflows of foreign private capital, 25% was direct private investment and only 2% bank financing, proportions which in 1978 were radically different; bank financing increased to 57% and direct private investment dropped to 16%. These two phenomena also signified that the large-scale expansion of credit was channelled essentially towards the petroleum-exporting and semi-industrialized

countries, bypassing the poorer countries which do not represent an attractive market for the private banks.

Fourthly, the oligopolization and subsequent monopolization of the international capital market. The copious inflow of external financing into many countries and enterprises was organized by some 34 big transnational banks which obtained a considerable proportion of the financing from hundreds of small and medium sized banks through the system of syndicated loans. For the purpose of managing the crisis and obtaining monopoly rents from the renegotiation of debts, the oligopoly has turned into a monopoly formed by about seven or eight large North American banks which join forces for solidary self-protection in *ad hoc* committees.[3]

Fifthly, in consequence of all the foregoing circumstances, the total lack of public control and responsibility with respect to this process of expansion of the international financial oligopoly, features which are at the very heart of the present financial crisis, and are shared equally by the transnational banks, the governments of the industrial countries that are hosts to the banks in question, and the governments of the over-indebted countries.

Here the governments of the OPEC countries and of the Third World in general wasted a unique opportunity to convert the obsolete Bretton Woods institutions into an international public system genuinely representative of the interests of the community of nations; accountable to their governments, and directed towards promotion of the development of the Third World and preservation of the dynamism and stability of the international economy.

Just as Monsieur Jourdain spoke prose unawares, throughout the 1970s we have lived through the equivalent of a Marshall Plan, without referring to it or even noticing it. The recommendations of the Brandt Commission were in fact applied, but *avant la lettre*, in accordance with market criteria, and by the transnational banks, instead of by a public international mechanism, sober, responsible and under the control of the national States. The result was, on the one hand, a fundamental Keynesian contribution to the maintenance of some degree of expansion of the international economy during the 1970s, which enabled it partly to overcome its trend towards stagnation as

from the end of the 1960s; and, on the other hand, a colossal waste of productive resources during that period, since they were allocated, in part at least, to financing Pharaonic and over-sized investment projects which were left incomplete or only partially in use; to a great increase in luxury consumptions; to the production and purchase of armaments; and even to flight of capital and corruption.

This chaotic situation contrasts with that of the public international financial system and, in general, with the whole of the international system of bilateral and multilateral co-operation and aid foı development which prevailed in the 1950s and 1960s. That mechanism, despite all its deficiencies, implied certain social criteria as regards anti-cyclical stabilization and resource allocation policies, which were superseded by private, bank and market criteria, and, in the last analysis, as far as can be seen, by sheer lack of judgment. Under the first system referred to the allocation of international public financial resources was subject to State meditation both in the donor and in the recipient country. Public resource allocation criteria were established which reflected long-term socio-political options, such as promoting industrial development, providing basic social capital, introducing structural reforms and modernizing agriculture, saving foreign exchange and creating employment. These were criteria which the parliaments of the developed countries imposed upon their own States and their foreign aid and financing institutions, and on the basis of which the State of the underdeveloped country negotiated, in so far as it too reflected long-term national interests.

In their stead, market criteria correspond to the maximization of profits in the minimum possible length of time, to inequitable income distribution, to the consumer preferences of the high income groups and to the market strategies of the most powerful and dynamic national and transnational private groups. Here there is a difference of transcendental importance: governments and entrepreneurs have had great freedom to obtain and allocate vast quantities of external resources, but this increased freedom has not necessarily been to the advantage of the countries receiving that plentiful inflow of private capital. Apart from the much heavier financial cost it represents, which has become a terrible burden because of the high interest rates,

the problem lies firstly in the fact that when the governments concerned are not firmly committed to a development policy, the readily available supply of short-term external private financing take the place of long-term external and internal saving and is deflected to consumption, instead of helping to broaden and diversify production capacity, and secondly in that the market by itself is not the most appropriate instrument for channelling resources towards the development of a diversified production system, accompanied by social justice, and sustainable over the long-term.

In cases where the State continued to control the allocation of resources for development, in face of the abundance of external resources it often lost all sense of prudence and moderation and sank into a kind of financial fools' paradise, forgetting that real institutional and human capacity for rational utilization of financial resources is limited, and that disproportionate short-term external borrowing is never a fit base for development strategy. In the petroleum-exporting countries, another great mirage took the form of confusing structural adjustments in petroleum prices with a sustained long-term trend on which to base the wildest investment projects and a reckless boosting of consumption. It would seem that all these issues, fully discussed in the literature of development, were likewise forgotten in the great financial conjuring act of the 1970s.

Transnational financial integration, the restoration of easy and ample access to the international private financial system and the possibility of large-scale borrowing exerted strong pressure in favour of the adoption of policies of trade and financial openness and liberalization. When the political conflict between different coalitions is defined in these terms, the result is over-expansion of imports of consumer goods and of the commercial and financial services sectors, and a reallocation of resources to the sectors with natural comparative advantages—including, in some countries, activities with advantages acquired during the import substitution process. All this was accompanied by an attempt to consolidate the new hegemonic coalition: supported by international private financing, and under the leadership of the financial sector, exporters, importers and businessmen entered upon the scene with renewed vigour, seeking to take the place of the coalition formed by the industrial sectors,

middle-income groups and working classes. There was a definite effort to reduce State intervention in order to leave the market—*i.e.*, the main economic groups—to operate as freely as possible, an updating of *laissez-faire* policies and the whole market ideology of free exchange, static comparative advantages, private enterprise and individualism. All this, of course, with the energetic backing of the new transnational centres of financial power.

In a commentary written on the eve of the crisis the following questions were propounded in this connection: how long will the pendulum be stayed at the extreme of transnational financial integration on which the strategy of external openness is so decidedly based? How far can the already taut cord of private external borrowing be stretched, especially in view of trends towards stagnation and protectionism in the centres and their effects on peripheral exports? What limits are there to a strategy of economic growth with external openness essentially grounded on expansion of consumption of imports, of the financial and services sectors and of primary export activities? Has 1930 been forgotten? How can oil-importing countries keep up and even accentuate a development style which encourages imports in general, including imports of fuels, with real prices going up over the long term and with uncertain supplies? And, conversely, in the case of the petroleum-exporting countries, what would happen to such a strategy if fuel prices stopped rising? What will be the effects of this strategy on the diversification of the production system, on capital accumulation, on employment and on income distribution.[4]

III

Reactivation without a Future

A recession in the central economies, less acute but more protracted than that of 1974-75, has sufficed to answer the questions posed. In Chile and Mexico, in Argentina and Brazil, in Uruguay and Ecuador, the shortcomings of both monetarism and developmentism have been exposed. Even in Columbia, a country which throughout the last decade pursued prudent policies, prompted by a healthy pragmatism, without succumbing to

the allurements of the flag-waggers on either side, there is now outward and visible evidence of the vulnerability and the structural and socio-political weaknesses which are characteristic of an underdeveloped and dependent economy, and which not even an admittedly reasonable mix of developmentist and monetarist policies has been able to overcome. In a burst of groundless optimism, many had believed these weaknesses to have been conquered or non-existent, on seeing that the Latin American economy continued to grow throughout the 1970s despite the relative stagnation of the economy of the centres and the petroleum crisis.

The structural problems of Latin America's development are well known. Although the growth rates of production, especially in the industrial sector, have been exceptionally high, urban and rural poverty is still present on a massive scale, with, in shocking contrast, small islands of extreme wealth; unemployment, underemployment and marginality are widespread; social inequality and the concentration of income and wealth are enormous; and the degree of vulnerability, disequilibrium and external dependence continues to be high.

As regards the conjunctural situation, the figures are deplorable : a slump in production and real income for the first time in forty years; an appalling increase in unemployment, especially in the cities; gigantic external and internal debts; speeding-up of inflation; fiscal, monetary and external imbalances; growing social and political tensions and conflicts. Notwithstanding the heterogeneity of situations in the Latin American countries—large and small, more and less industrialized and urbanized, net importers and net exporters of petroleum—and the differences between them in respect of economic policy, the crisis affects all alike, although in varying degrees of intensity.[5]

The generalized character of the crisis in Latin America has induced many, especially governments and those responsible for economic and financial policies, to regard it as of external origin (just as not many years ago they attributed the boom—brought about by virtue of exceptional external borrowing—to the wisdom of their internal policies). Blame is laid on the high interest rates that were engendered by the depressive monetarist policies introduced towards the end of the Carter administration and were accentuated by the giant fiscal deficits

built up under the Réagan regime, in combination with the rather original contribution of the "supply siders"; on the world recession and the contraction of international trade; on the deterioration of the terms of trade; and on the drying-up of capital flows.

But this does not account for the fact that although the crisis is indeed generalized, it is no less true that its intensity and characteristics differ markedly from one country to another. For example, the steepest drops in production, income and employment are observable chiefly in the countries of the Southern Cone and some others which have faithfully adhered to the monetarist prescriptions and the stabilization programmes of the International Monetary Fund.[6] This being so, even though the crisis may have a common external origin, there can be no doubt that its internal effects have been attenuated or aggravated by the countries' own characteristics, their previous development strategies and their policies for the dealing with external problems.

Nor does it explain another singularly significant fact. As has already been pointed out, notwithstanding the frequent comparison of this crisis with that of 1929-1932, the two phenomena are not, up to now at least, very much alike. It is worthwhile briefly to recall that during the earlier period the gross product of the main industrial countries plummeted by about 20% between 1929 and 1932, while total world imports shrank to one-third. Unemployment swelled to enormous dimensions and nominal wages fell; but as prices declined by a similar proportion, real wages were maintained, profits vanished into thin air and investment stopped dead. Money stocks were reduced, along with short-term interest rates. The national and international financial system underwent a severe crisis; many banks failed in the United States and Europe; and governments had to intervene or abandon the gold standard.[7] Between 1980 and 1983, on the other hand, although GDP and foreign trade witnessed a reduction in their rate of increase they did not significantly decease in absolute terms. Unemployment, although high, does not approach the figures for the former period, and movements of prices and wages are very different as are also the characteristics of the financial system.

What is more, in 1974 and 1975 a similar recession took place,

without causing Latin America's economic policy the least headache. Why should it happen that now, in contrast with recent recessions and with the 1930 crisis, the centre has only to sneeze for the Latin American region of the periphery to suffer a heart attack? Why, it may also be asked, is this upheaval so explosive in Latin America, while its effects on the other regions of the Third World are much less virulent? Why, on the other hand, does it seem to have got past the Iron Curtain, and had some impact on several countries in the socialist area?

To be able to answer these and other germane questions it is of fundamental importance to understand the nature of the crisis. In essence, two attitudes towards it are taken up. One maintains that it is just a recession, somewhat more protracted than is usual, in which unfortunately several coincident negative factors have combined to produce particularly severe effects in Latin America, but that there are already signs of recovery in the United States; one must be patient and "adjust" until its positive effects begin to make themselves felt, for then will come a new phase of expansion that will alleviate the acute problems of today.

Another very different view sees this as a deep-seated structural crisis, in which the recessive and financial problems, as well as the more manifest disequilibria, are only symptoms which may easily be confused with a transient recession, but behind which in reality lies a profound and immensely far-reaching long-term crisis, whose outcome cannot be forecast with any certainty. It is essential to take up a position *vis-a-vis* these alternatives. In the first case, the appropriate strategy is to ride out the storm until it dies down, and to go ahead with the traditional development strategies. In the second case, it is a matter of understanding that there is no such passing storm, but the tempestuous close of an expansionist epoch or phase of capitalism and that an attempt must be made to advance by new routes, learning from the lessons of the past, but not turning back, exploring new future options, and all this in a turbulent and difficult international context, very different from that prevailing in the first decade or two after the war. This is the alternative towards which the author of the present study inclines, for reasons that will be set forth more fully below.

Before attempting an interpretation of what I hold to be a

deep-seated crisis of the post-war development style, which in my opinion calls for fundamental changes in the development strategies of Latin America and entails powerful regional and Third World co-operation, I must refer to the economic reactivation or recovery which is taking place in the United States, and on which many authorities in the national and international economic and financial world are pinning such high hopes.

It is important to form a clear judgement of this phenomenon, for if it is confidently felt to be the beginning of a recovery which will subsequently draw the industrialized world in its wake to a new phase of sustained and dynamic expansion, creating the right conditions for the Third World to enter upon a fresh spell of rapid growth, and therewith the requisites for lightening the heavy burden of external debt servicing, there might be some justification for short-term adjustment policies. If, on the other hand, the real outlook were not so flattering, the costs of persisting in adjustment policies and postponing radical changes in development strategy might be overwhelming.

In contradistinction to the optimistic declarations of the national and international economic and financial authorities, eager to create an atmosphere of confidence, a review of the specialized press, and of some recent reports by international institutions, reveals little reliance on the durability of a short-term, still less of a medium and long-term recovery, or on the possibility that the positive drive will be efficaciously transmmitted to the Third World.

Particularly significant are the recent declarations of Mr. Fritz Leutwiler, President of the Bank for International Settlements (BIS). This bank, together with the International Monetary Fund, is the nearest thing there is to a world central bank. Apart from the fact that its annual reports carry indisputable authority, in recent years the Bank has been at the eye of the financial storm, actively participating with IMF in debt renegotiations between the biggest borrower countries and the leading creditor banks.

In a recent address Mr. Leutwiler warned that it would be dangerous to assume that the industrial world is "about to enter an era of high and sustained growth," which is a prerequisite for any expansion of the developing countries' exports. "Anaemic economic growth in Western countries would anni-

hilate the hopes of less developed countries to expand their exports to any significant degree," which means that the debt problem is likely to drag on for a long time and there is no alternative but to ask the banks to continue helping countries to finance their debts. He added that "one should start looking for alternative ways to reduce the debt burden of developing nations." One possibility, he suggested, was for the countries in question to "sell some of their national assets to their creditors. For those countries with large endowments of natural resources or profitable State-owned enterprises, this is certainly an option worth considering" (*Financial Times*, 5 December 1983, p. 1).[8]

These gloomy pronouncements coincide with those of various recent commentators and reports.[9] First, it is acknowledged that the recovery of the United States economy is very vigorous and that growth rates varying from 4.5 to 5.4% might be reached in 1984 (forecasts by OECD and the National Institute of Economic and Social Research, United Kingdom, respectively). Many commentators note, however that the rate of recovery will slacken next year with the flagging of the initial drive generated by demand on the part of certain consumer expenditure sectors and by replenishment of inventories. They also think that the maintenance of high real interest rates, strengthened by enormous and persistent fiscal deficits and by the recovery itself, together with the weakness of other sectors of demand, part of which is filtered off towards imports favoured by an overvalued dollar, will hamper the recovery of investment, since there is a wide margin of idle capacity which is being taken up very slowly. In these circumstances, the initial impulse deriving from the expansion of consumer expenditure is not likely to result in an increase in investment, and unless this were to revive, expansion could not be sustained.

The vigorous United States recovery would not seem, however, to be reproducible in the other OECD countries. In several of the smaller countries and in France and Italy, monetary and fiscal policies will continue to be restrictive in view of heavy fiscal deficits, rates of inflation that are still high, shaky external accounts and pressure on exchange rates, accentuated by the high United States interest rates and the strength of the dollar. The conservative governments of the

United Kingdom and the Federal Republic of Germany, too, have declared that they will go on pursuing their restrictive fiscal policies.

With a more monetarist approach, BIS reaches similar conclusions. It maintains that the progress already made in reducing inflation should itself foster recovery by setting afoot several processes: an increase in the real money supply, reduction of the real losses sustained by holders of financial assets, expansion of saving and the propensity to spend, capital gains, entrepreneurial confidence, a backlog of demand in respect of durable goods, housing, replenishment of inventories and even investment. It points out, however, that these processes are highly sensitive to the level of interest rates, especially in real terms, in this sense it would seem that the progress made is insufficient. Although normal interest rates have come down, they have done so by less than the decline in inflation, particularly in the long-term market. Consequently, the real interest rate remains at levels that are historically high, especially for a period of recession. A major cause is to be found in the present and predicted United States budget deficits. If this situation remains unremedied, the risk will persist that the recovery will be aborted.[10] Recently Professor Martin S. Feldstein, Chairman of the Council of Economic Advisers to the President of the United States, fluttered the dorecotes by asserting that "it would be unwise to assume that growth alone will reduce the deficit to an acceptable level" (*International Herald Tribune*, 6 December 1983, p. 13). He added that if Congress did not act soon to reduce the deficits, it ran the risk of plunging the United States economy back into recession (*Ibid.*, 28 November 1983, p. 10).

The above-mentioned institutions predict a growth rate of 3.3% for the European economies in 1984, which seems decidedly hazardous in the light of the individual countries' situations, and in comparison with the 1.5% forecast by the European Economic Community.

Forecasts suggest that unemployment will continue to increase in the ten EEC countries throughout the recovery, and even through the rosiest-coloured spectacles no significant effects on unemployment figures can be glimpsed ahead. Private economists who extend the analysis beyond 1984 do not think

that the recovery will become more marked in 1985, but rather that there is likely to be a fresh setback in 1986.

Even if a significant recovery takes place, as the more encouraging forecasts suggest, it in no way guarantees immediate relief for the Third World countries. To that end, essential requisites are an expansion of demand for imported primary commodities and manufactures, willingness on the part of importers to increase their purchases and stocks, and an upward trend in the prices of the products in question in relation to exports from the industrial world (many of these tied to the overvalued dollar). In turn it will be necessary, *inter alia,* for the expansion of spending in the centres to be channelled towards sectors directly or indirectly using inputs from the Third World; for reactivation prospects to be sustained and for interest rates to fall, so that importers may have medium-term incentives to step up their purchases and replace inventories; for unemployment to be reduced so as to attenuate protectionism; and for income and demand to be strengthened in the lower-income sectors.

The difference between the rates of economic recovery in the United States and in the European economies is also of importance for the Third World, since the members of the European Economic Community, whose growth will be less, absorb almost one-fourth of total world imports (excluding intra-Community trade) while the United States accounted for only 15% in 1980.

For all the foregoing reasons, the prospects of the recovery's being reflected over the short term in significant increases in demand and prices for the primary commodities, food products and manufactures exported by the underdeveloped countries look very doubtful, especially if the recovery, as everything seems to suggest, has little likelihood of being maintained.

What is more, the underdeveloped world, far from contributing to the recovery as it has done in the past, helps to limit it. The suspension of the flow of private external financing into these countries on account of their heavy external indebtedness, the insufficiency of official financing to stabilize the balance of payments, the reduction of external aid and the deterioration in the value of exports, besides substantial losses

of reserves, have compelled many countries to adopt stricter austerity policies and to compress their imports severely, and this has strengthened deflationary pressures in the industrial countries.[11]

To the prospect of a relatively ephemeral recovery must be added another factor with potentially explosive short-term repercussions, which may help to prolong stagnation over the medium and long term: the highly delicate international financial situation.

A political and strategic factor at the international level, which is undoubtedly causing far greater concern to the United States and Europe than the economic and financial crisis, is the sensation of standing on the threshold of a direct or indirect armed confrontation between the superpowers, in the strategic fields of Europe, the Middle East, Central America and the Caribbean. Almost ludicrous though it may seem to speak of any of the economic consequences of a war of incalculable projections, two at least cannot but be mentioned. Firstly, on the one hand, the fear of an armed conflict encourages the purchase of dollars for security reasons, which weakens European balance-of-payments positions and supports the trend towards overvaluation of the dollar, enlarging the United States trade deficit and intensifying protectionist pressures. On the other hand, there is a prospect of further increases in United States military budgets and of the maintenance of the inordinate fiscal deficit and the high interest rates. It is a remarkable paradox that Europe, which will be the first victim of a flare-up of hostilities, is helping to finance this policy.

A second factor is uncertainty with respect to the stability of the international banking and financial system. William R. Cline, a recognized specialist in this field, estimates that if Brazil were to declare a moratorium for a specific period half the profits of the nine leading United States banks would be wiped out, which would precipitate a run on the banks and would compel the Federal Reserve Bank to support them. Even if it did not entirely eliminate profits or seriously affect capital in most cases, it would undoubtedly be a severe blow to the economy. The incentives for debtors to "walk away from their obligations" are increasing: in 1982 the interest paid by

the non-petroleum-exporting developing countries (US $59.2 billion) exceeded net inflows of capital (US $57.4 billion). The same writer describes the situation as one of "an underlying structural vulnerability in international lending" (*International Herald Tribune*, 28 November 1983, p. 9). The defaulting crises of Mexico and Brazil, during their crucial phases, sharply reduced the value of the shares of the banks most deeply involved and obliged the United States Treasury to mount rescue operations to avert the risk of a run on the banks and the failure of some of them. The President of BIS remarked, in the address quoted above, that while the financial world was much better prepared than a year ago to handle a possible default, this was still something that could not be ruled out. He was, no doubt, referring to the emergency renegotiation operations which had been organized and to the intolerable pressures to which the governments of the debtor countries have been subjected by the International Monetary Fund, and which have caused the stability of more than one to totter.

The delicacy of the international political and financial situation has its internal repercussions in the creditor countries themselves. The authorities controlling the United States banks currently record the largest number of financial institutions in danger of bankruptcy since the 1930s. The Federal Deposits Insurance Corporation (FDIC) considers that more than 600 banks are at risk of failure, and the authorities were expecting that number to increase before the end of 1983 (*International Herald Tribune*, 26-27 November 1983, p. 11). Two recent reports, one from the Treasury Department and one from the House Ways and Means Committee, state that the two most important bank control institutions—the Office of the Comptroller of the Federal Bank and FDIC—are incapable of detecting potential bank crises and enforcing preventive and remedial measures. The National Bank of Switzerland is to request five new sets of informational data from the banks, including details on their external activities, this latter on account of the international financial crisis which has shown that effective supervision of the international banks is impossible if their external subsidiaries are not taken into account. (*Ibid.*, 30 November 1983, p. 13). And this in a country where there are no cases of banks overinvolved in loans to heavily indebted

countries, a state of affairs which the Swiss bankers themselves attribute, of course, to the strict provisions regarding capital assets coefficients with which they have to comply (*Ibid.*, 29 November 1983, p. 12).

And it must not be forgotten that the displacement of governments committed in the 1970s to the monetarist policy of external openness, and of their technical cadres linked with the transnational banks and responsible for the immense external debt and its consequences, will imply significant changes in these countries bargaining position. Not unconnected with this concern is the attention devoted by the international press to the recent elections in Argentina and Venezuela, and the satisfaction expressed that in both cases ample democratic majorities were obtained. This would make it possible for the new presidents to impose severe austerity policies "acceptable to the international banks" (*Financial Times*, 6 December 1983, p. 18). Here the dilemma posed at the beginning of the present article appears in its crudest guise : it is hoped that these new presidents will govern in accordance with the interests of the international banks, which certainly do not coincide with the needs of the peoples who elected them.

The nerves of the world financial authorities are on edge and public opinion in the countries in question is by no means willing to see their tax payers helping to subsidize rash and irresponsible bankers while they themselves are subjected to austerity policies which reduce employment and social services. The same view is taken by the small and medium-sized banks, which put up much of the external financing of the big banks through syndicated loans, and which are now involved in the renegotiation processes being carried out by those that are the most deeply committed. The Michigan National Bank is suing the City Bank in a legal battle which is being watched with the keenest attention by international banks throughout the world. Michigan National is challenging City Bank's decision to effect a rollover of its share in a loan to Pemex without its consent. This is the first case of its type in recent years, and its settlement could have important repercussions on the viability of many recent debt renegotiations (*Ibid.*, p. 21).

In short, the national and international financial world gives the impression of a mine-field into which the chief prota-

gonists—banks, international financial institutions, governments —are venturing with more equipment in the way of experience and devices to detect and temporarily defuse the mines and to look after the wounded when they stumble against one. But as yet there are no signs of any real effort to mount a systematic cleaning-up operation. Attention is focused on the very short term. The banks and governments of the industrial countries and their chief agent—the International Monetary Fund—want to lay on the debtor countries the whole burden of the cost of adjustment, subjecting them to intolerable economic, social and political demands, and all this in the hope that on the road to recovery the loads will be accommodated.

IV

The Exhaustion of the Transnational Growth Style

In my exploration of this field I shall seek the company of several authorities, seeing to it that they represent a broad ideological spectrum. According to Paul Samuelson, Nobel Prize winner in Economics, whose position is well in the centre of the doctrinal gamut, no one can confidently predict the future; but after careful consideration he thinks the last quarter of the twentieth century will show a rate of economic progress far below that attained in the third quarter.[12]

Within the Marxist tradition, one of its most outstanding representatives, Professor Earnest Mandel, by the early 1970s already saw in the 1974-1975 recession one of the recurrent crises of the capitalist system, characterized since the mid-1960s by a decline in the profitability of enterprises in consequence of a twofold process of overaccumulation of capital and underconsumption. The boom phase of the lengthy cycle which the system is experiencing at present would seem to have come to an end in 1967, when a long recessive phase began.[13]

The third quotation, from a conservative standpoint, comes from the BIS document already cited on several occasions. "The process of disinflation upon which the Western industrial world had embarked in the wake of the second oil crisis. . . has been accompanied, at least until recently, by stagnation of output in the industrial world as a whole. It is probable that the wrong

policy mix, *i.e.*, the excessive burden borne by monetary policy in imposing global restraint, made the stagnation more protracted than it would otherwise have been. And it is certain that by exerting upward pressure on interest rates the policy mix has had a particularly inhibiting influence on capital formation, thus mortgaging future growth potencial. But one should forget that the Western industrial countries' growth problems did not begin three years ago, when they jointly undertook to resist the cost-push of the second oil shock. The first signs of a break in growth trends, at least as far as fixed capital investment is concerned, were evident in the late 1960s and early 1970s, well before the first oil shock. The deeper-seated causes of the break remain uncertain, but the more immediate ones are not: the rising share of labour in income distribution, the declining profitability of businesses, the expanding rolе of the public sector, sluggish capital formation and weakening productivity growth."

"Nor should one attribute the current level of unemployment exclusively to the demand-restraining policies of the last three years. Unemployment, particularly in Western Europe, was on an upward trend well before that, under the combined influence of slower growth, an expanding population and in some countries increases in the labour-force participation rates. Last but not least, the excessive rise in real wage costs and growing impediments to labour mobility gave a major incentive to labour-saving investment and innovations. It is against this background that the recent declines in real wages, beyond their direct contribution to slowing inflation, are a helpful element of adjustment."[14]

The exceptional post-war boom began to fade out by the end of the 1960s (see Table 3). In all the industrialized countries productivity increased from the mid-1950s to the mid-1960s. This trend was reversed in almost all cases in the second quinquennium of the 1960s, after which a slight recovery was shown in some countries in the early 1970s, to be followed in the rest of the decade by a slump. This decline in productivity towards the end of the 1960s was also reflected in such indicators as the profitability of enterprises, the decrease in the rate of capital formation and the increase in unemployment. Most of the analyses of the period, which are based on trends in the gross product and in foreign trade, overlook that essential turning-point,

Table 3 : The Growth of Labour Productivity in Selected OECD Countries 1955-1980

(*Percentages*)

Country	Total economy				
	Late 50s	Early 60s	Late 60s	Early 70s	Late 70s
United States	1.8	3.0	1.0	1.4	0 3
Canada	1.7	2.5	2.0	2.8	0.2
United Kingdom	2.2	3.1	2.8	3.1	1.1
Sweden	n.a	4.5	3.1	2.0	0.4
Denmark	5.2	3.7	3.3	2.8	1.3
Norway	3.8	4.5	3.5	1.5	2.5
Finland	3.6	4.7	5.1	4.7	2.5
Netherlands	4.0	3.1	4.4	4.4	1.9
Belgium	2.5	5.2	3.9	4.4	2.4
Germany	4.6	4.9	4.6	4.1	3.2
Austria	5.0	4.6	6.4	5.2	2.8
France	4.3	5.0	4.5	4.7	2.9
Italy	4.6	5.0	6 2	4.2	1.7
Japan	8.4	12.5	8.6	6.3	3.0

Source : Herbert Giersch and Frank Wolter, "Towards an Explanation of the Productivity Slowdown : An Acceleration-Decelaration Hypothesis," *in The Economic Journal*, 93, March 1983, Table 1, p. 36.

since those indicators, after a reduction in the years 1970 and 1971, made a vigorous recovery in 1972 and 1973. Accordingly, many analysts of the crisis take the year 1973 as a major milestone, which in the present writer's opinion introduces a serious bias into the analysis, by attributing the end of the post-war era of expansion implicitly and often explicitly to the oil crisis. The fact that the process of stagnation had begun by the mid-1960s is thus lost sight of.[15]

In order to see this phenomenon in a clearer light, it should be fitted into a broader historical framework (see Table 4). This throws into relief something which economists had forgotten, or which, with their characteristic arrogance, they

Table 4 : Growth Characteristics of Different Phases, 1820-1979

(Arithmetic average of figures for the individual countries)

Phases		(Annual average compound growth rates) GDP	GDP per head of population	Tangible reproducible non-residential fixed capital stock	Volume of exports
I	1820-1870	2.2[1]	1.0[2]	...	4.0[1]
	1870-1913	2.5	1.4	2.9	3.9
II	1913-1950	1.9	1.2	1.7	1.0
III	1950-1973	4.9	3.8	5.5	8.6
IV	1973-1979	2.5	2.0	4.4[3]	4.8

Source : Angus Maddison, *Phases of Capitalist Development*, Oxford University Press, 1982, p. 91.

1. Average for 13 countries.
2. Average for 10 countries.
3. 1973.

thought had been overcome by the progress and perfecting of economic policy : the irregular, cyclical nature of capitalist development, not only over the short and medium but also over the long term. It can be seen from the beginning of the ninteenth century to our own time capitalist development has passed through several protracted phases of expansion and stagnation of production, per capita income, productive fixed capital formation and exports (see Table 4).

The first phase of expansion lasted almost a century, up-to 1913; then supervened a long wave of recession between 1913 and 1950; next a new and very marked expansionist cycle followed, between 1950 and 1973; and latter still, between 1973 and 1979, came the dawn of what would appear to be a new and long-drawn-out phase of recession. This last period really began several years before, and the last few years should also be added, making up a period of about 15 years of relative stagnation. It is not surprising, therefore, that there should have been a revival of Kondratieff's theory of long waves or cycles.[16]

Does this last period really constitute the beginning of a lengthy phase of stagnation, or is it merely a matter of taking a deep breath, or heaving several profound sighs, before resuming the noteworthy rate of expansion characteristic of the period following the War? To decide this point, it is necessary to examine the nature of that extraordinary phase of expansion and to see whether the conditions on which it was based still exist or have disappeared. To that end, I shall examine some aspects of the evolution of the primary factors of production (human, natural, capital and energy), of the State of the productive forces and their technological base, and of the national socio-political organization and its international context.

As regards productive resources, it should be recalled that the labour force has increased significantly in the developed countries, as a result of the population explosion recorded in the United States after the Second World War and the immigration into Europe, especially into West Germany, of the displaced population of the countries of Eastern Europe. Subsequently, this manpower contingent went on expanding in the North Atlantic economy in consequence of immigration from the European and United States periphery, the "Gastarbeiter" phenomenon in Europe, and the quotas of Mexican, Central American and Caribbean immigrants in the United States.

With respect to raw materials, investment in mineral, energy and agricultural resources was rapidly renewed after the Second World War in view of the prospects of expansion of United States and, later on European and Japanese demand, both for the purposes of reconstruction of these economies and to supply the demand deriving from the cold war and hostilities such as those in Korea and other subsequent conflicts. A factor of importance in facilitating this investment was the gradual dismantling of the European colonial empires in Asia, Africa and the Caribbean, which opened up these countries to United States, German and Japanese investment.

Where capital infrastructure was concerned, the United States economy had not succeeded in fully utilizing its accumulated productive capacity until the last stage of the Second World War. And this tempo of activity was not recovered until the end of the 1940s.

This incorporation of relatively idle factors of production

into the economic process was possible thanks to an exceptional expansion of global demand. It was manifested mainly in the resumption of military expenditure on rearmament in consequence of the start of the cold war as from 1948, the Point IV programme to support the development of the less developed countries, the Marshall Plan for the reconstruction of the European countries devastated by the War, the creation of the European Common Market, the introduction of a set or redistribution and full employment policies, as part of the conception of the Welfare State, and the generalization of the United States life style and consumer patterns in the European countries and Japan at first, and later among the privileged sectors in the rest of the world.

The logistic support for the establishment of the political, military and economic hegemony of the United States was, moreover, one of the chief sources of the extension of the great United States oligopolical corporations to the rest of the developed and underdeveloped world, or, in other words, one of the bases on which the transnational enterprise was able to expand at world level until in time it contributed to the generation of the transnational system.

The sustained expansion of demand and of internal and international markets, the utilization of accumulated production capacity and the enlargement of scales of production in the big multinational corporations, the introduction of technological innovations deriving from the Second World War and from the nuclear and space race of the post-war decades, together with the mass adoption of United States vanguard technology in the European and Japanese economies, made possible a striking increase in capital formation, radical changes in the structure of production, economies of scale, agglomeration and conglomeration, and improvements in productive efficiency, with a marked upswing in the productivity of labour. Behind all this a major contributing factor was the low price and gradually increasing cheapness of petroleum, the source of energy which came to be predominant in the post-war economy. This new energy base in process of expansion facilitated the increase in labour productivity by promoting the rapid and mass substitution of capital equipment for manpower. This was reflected, furthemore, in greater dynamism in those sectors of the econo-

my that were most directly linked to the utilization of so exceptionally versatile and cheap a source of energy : the motor-vehicle industry, the metal-working and electronics industries producing durable consumer goods, the petrochemical industry, and the artificialization of agriculture (mechanization, chemical inputs, artificial climate and conservation).

This combination of factors was favourable to a highly oligopolized economic structure, in which the dynamics of competition between the great transnational corporations was increasingly channelled into rapid innovations in technology and design, differentiation of output, and inordinate promotion of consumption and manipulation of the consumer, through scientific publicity and sales techniques as well as the almost unlimited extension of consumer credits : all this based on a veritable revolution in communications.[17] The levels and patterns of consumption of individuals, families and society as a whole became their central social objectives and values, determining their social status within the national framework and in the international system. The demonstration effect came to be the lode star of social aspirations both among countries and among the social classes in a single country, and the development criterion and ideology of national growth and "modernization", taking this to mean the assimilation and reproduction of the behaviour patterns, values, consumption, technology, social and even institutional and political organization characteristic of the industrialized countries and in particular of the United States.

In the case of Latin America this interpretation of development policy took formal shape in the Alliance for Progress. The idea, in essence, was to promote economic growth by means of major transport, communications and energy infrastructure projects, in order to facilitate industrial development, the modernization of agriculture (including its institutional transformation through agrarian reform) and urbanization, which, together with the expansion of general and higher education, were aimed at building up large urban middle classes; these, by sharing the life style, consumer patterns and values of the developed world, would be the pillars of an economic development of capitalist character under a democratic political system, closely linked to the North Atlantic alliance.

As has been noted, the exceptional dynamism of this economic growth style of the industrialized countries began to slacken at the end of the 1960s. The reasons are of various kinds. In the first place, during the period analysed, and especially in its early phases, there were certain initial conditions and factors and unique phenomena that were irreproducible, such as the existence of idle capacity in the United States economy. European reconstruction, the integration of Europe, industrial and agricultural modernization, especially in Europe and Japan, and the liberalization of international trade, all of which helped to stimulate expansion, but once their possibilities were exhausted disappeared from the scene.

Another group of factors served as driving forces upto a point, but in so far as their use was extended beyond certain limits they changed from positive to negative and began to turn into constraints on expansion. Cases in point were the increasing costs for the State of financing gigantic military set-ups and performing income redistribution and social welfare functions, and the rise in the real cost of labour deriving from full employment policies and the strengthening of the trade unions' bargaining power. These were at first factors making for the expansion of demand, but when certain levels were exceeded they resulted in a reduction of the profitability of enterprises and in inflationary pressures, either on account of the fiscal deficit or because of increased taxation.

The expansion of foreign investment through the transnational corporations also enjoyed an extremely dynamic and positive phase, but the time came when high real costs of labour, heavy taxation and environmental protection requirements meant that the profitability of the subsidiaries surpassed that of the parent firms. These latter began to transfer their operations in masse to other countries, developed, underdeveloped and even socialist, not only to broaden their markets, but, what was more, to re-export from them to their countries of origin, ousting traditional activities in the process of generating unemployment problems.[18]

Another phenomenon of this type is the rapid reconstruction, modernization and exceptional dynamism of the European and Japanese economies, which at first contributed to the economic expansion of the industrialized centre, but which as time went

by began to cause friction among the countries forming it with the intensification of competition among the European countries, between these and the United States and between Japan and all the rest. Trade deficits were thus generated in the less competitive countries, which adopted restrictive and protectionist policies, thereby cramping not only their own expansion, but also that of the more dynamic countries, and indirectly that of the less developed countries and in the last analysis of the entire world economy.

A similar case was that of the developing countries which diversified and expanded their exports of non-traditional items and manufactures and began to gain a foothold in the markets of the industrial countries; in so far as they multiplied, grew and were successful, they created problems of equivalent activities in the industrial countries, which provoked the corresponding protectionist reaction.

The increasing United States trade deficit generated by these differential trends in productivity and international competition, and aggravated by military, external aid and foreign investment commitments and by such events as the hostilities in Vietnam, finally led to the relinquishment of the dollar/gold standard in August 1971. This marked the collapse of the system of international economic institutions established at Bretton Woods, with the dollar as a reserve currency, on the basis of the fact that at the end of the War the United States possessed a gold reserve much larger than of all the other countries put together. By virtue of the process described above, this situation underwent a radical change. In 1950 the Federal Republic of Germany, Italy and Japan together possessed a reserve of US \$1.4 billion which by 1970 had increased to almost US \$24 billion; United States reserves in the same period dropped from US \$24 billion to US \$14.5 billion, and went on rapidly falling.

As the vulnerability of the dollar became increasingly patent, a number of speculative manoeuvres against the existing parities were initiated, facilitated by the elimination of exchange controls in Europe and the rapid expansion of the Eurocurrencies market, in which it was easy to obtain credit for speculative purposes. The agreement reached in December 1971 on the management of exchange adjustments was annulled in

1973, inasmuch as fixed parities were no longer possible in face of the creation of an international financial market which facilitated speculation. Once again an expansionist process of trade and financial liberalization took place, which in a world of fixed and foreseeable parities had facilitated international trade and investment during a given period, but which in face of growing real imbalances among the member countries and the recreation and vast expansion of an uncontrollable transnational private financial market fell a prey to speculative instability. The introduction of fluctuating exchange rates brought permanent instability into the system, and with it uncertainty and extreme caution in respect of productive investment, especially of a long-term character.

The energy crises might be regarded as an exogenous shock which had an impact on the situation at two key points of time : 1973-1974 and 1979. But from a longer-term standpoint we have been formulating the hypothesis that this was one of those virtuous circles which become vicious circles in the course of time. Because of the United States' exceptional resource endowments and its relative shortage of manpower, it had tended ever since the last century to adopt capital-intensive technologies. The plentifulness of oil resources, and the price and other advantages of this fuel, encouraged its widespread use and dissemination in the motor-vehicle and petrochemical industries and in the manufacture of electrical household appliances. Hence was engendered the development style described above, based, *inter alia*, on intensive utilization of this source of energy, and, in general, of all the natural resources and environmental conditions which were exceptionally abundant in the United States. With the transnationalization process this style was generalized throughout the world, whereby demand for petroleum expanded to an inordinate extent and became increasingly inelastic as it was to a greater or lesser extent incorporated in patterns of technology, of production, of consumption, of territorial organization and of human settlements in all countries, including those lacking in oil.[19] Thus it was that the petroleum-exporting countries realized that specific geopolitical circumstances had been created which allowed them to form a cartel and fix prices at a much higher level.

Whatever the interpretation of this phenomenon, its effects

on the international economy have been of the greatest importance. In the first place, it has caused a structural costs inflation effect on account of the restriction of supplies of a basic input; secondly, it has rendered obsolete a considerable proportion of the fixed capital structures whose operation depended upon petroleum, with the consequent capital losses; and in addition it has considerably enlarged the deficits on current account of the petroleum-importing countries. At the same time it contributed to the formation of the transnational banking system and the infusion of a formidable mass of liquidity of some US $2,000 billion into the international economic system during the psat decade. This was a means of preventing an even worse recession, but it helped to generate very strong additional inflationary pressures, especially as a result of the 1979 oil crisis. Hence a new direction was given to economic policy : the economic growth and full employment targets adopted after the Second World War were abandoned, and every effort was concentrated on counteracting inflation and restoring basic systemic equilibria through a monetarist purge.[20]

Economic stagnation and growing unemployment, increasingly intensive inflationary pressures and the contradictions deriving from a succession of short-term policies designed to "warm up" and "cool down" the economy time and again, were reflected in greater social tensions and subsequently led to the breakdown of the coalition between capital, the middle-income sectors and labour, which was the political cornerstone of the Welfare State and of the Keynesian policies of full employment and expansion of consumption that characterized the prolonged post-war boom. What was possible in a period of expansion, when the struggle for redistribution was taking place in a situation in which everyone could gain, became impossible in a situation of stagnation, when the gains of some were obtained at the expense of the rest. It seems to me that this fundamental political fact—the disruption of a broad social and political consensus which extended from organized labour to the entrepreneurial sectors, and included the large middle-income strata of professionals, technicians and employees of public and private bureaucracy—is what lies behind the resurgence of a highly reactionary position on the political right wing (and of a thoroughgoing revolutionary one on the left).

The reactionary position has two major manifestations : the use of the monetarist model as a macroeconomic explanation, and, more essential still, the philosophico-ideological return to the classic traditions of Adam Smith's capitalism, that is, a radical revaluation of individualism. Society is not made up of social aggregates—classes, groups—but of individuals; everything can and must be interpreted in supply, demand and market terms, be it law, the State, society, family life or marriage: to everything can and must be applied the economic cost-benefit analysis. All this comes to constitute an ideology, a political programme, in which an attempt is made to dismantle the State apparatus as far as possible. The Welfare State system is severely pruned because it interferes with each individual's decision as to what he must do with his income; State intervention in respect of investment is also restricted; and the weight carried by the State in terms of taxation and in particular of income tax is reduced, in order to demolish a system which deprives the individual of incentives.[21]

Other necessary steps are to destroy the trade union organizations in order to forestall artificial interference in the labour market; to strip the State of all enterprises and activities that can be privatized; and, of course, not only to apply the principle of *laissez-faire* in internal affairs, but also to promote total openness of the national economy to the world economy, so that the domestic price system is regulated by the international price system to ensure that static comparative advantages determine resource allocation.

In macroeconomic terms, the monetarist model consists essentially in liberalizing the financial market to the greatest possible extent, eliminating the fiscal deficit and strictly limiting monetary expansion so that the rate of interest may reach its "true" real level, and may serve as the chief instrument for encouraging saving and allocating investment resources. As long as these monetarist policies were applied in industrial countries of secondary importance in the international system, and in underdeveloped countries, the world economy was not affected. But when this programme began to be implemented in the United States economy, nominal and real interest rates shot up to extremely high levels, not only in that country but throughout the world, whereas they had been barely positive

since the War. Thus the recession was exacerbated and prolonged, investment, particularly long-term investment, being restricted, and in many countries the problem of the external and internal debt reached boiling-point.

In the upshot, this attempt at an interpretation of the evolution of the international economy after the War would seem to suggest that the phase of dynamic expansion had come to an end by 1970, as a result of the disappearance exhaustion and reversal of a number of long-term forces, which were in operation during the period in question and since then have not been replaced. During the 1970s the political and energy bases that supported the development style in question collapsed, and for a conception of economic policy directed towards growth and full employment was substituted another centred on monetary and financial stability at both the national and the international level. Thus a period of serious instability, uncertainty and confusion was generated in both national and international economic policies, which have culminated in an acute and prolonged recession, superimposed upon the long-term structural crisis of the style.

V

A Future without Reactivation

It is very possible that this diagnosis may be mistaken. But I am in good company.

"The 1980s and 1990s are likely to be decades of profound change: changes in the technological sphere, with massive introduction of computers and the increasing use of robots in the production system; changes in the energy field, where oil will be replaced by other sources of energy; changes in consumer tastes and their repercussions on consumption patterns; changes in the international environment, especially with the increasing competitiveness of newly industrialized countries; and, last but not least, changes in the financial and international monetary system brought about by the increasing disorder of recent years.

"During most of the post-war period the ECE market economies have shown their adaptability to changing patterns

of production and consumption; however, this was essentially achieved under conditions of relatively rapid economic growth. One of the main questions for the coming years is whether, in the present sluggish economic environment, these countries will be able to adapt their economies smoothly to the changes foreseen and whether, under the acute pressure of current problems—like very high unemployment rates—short-term policies may postpone or at least slow down the pace of the necessary structural changes. . . .

"A further general conclusion of the present study is that low economic growth and high development levels seem to increase the rigidities of the sectoral structures of production and employment. In the currently prevailing economic environment, these rigidities may imply a long transition period—in making the necessary structural adaptations."[22]

An eminent specialist in technology remarks that "the stock of inventions and innovations now at hand does not give the impression that they could furnish the needed impulse for rapid growth in the developed countries in the period ahead. The experience of the 1970s has underlined that the structural changes which had served to cushion the impact of deceleration also seem to have exhausted their resilience. Nor are the longer-term social aspects (management of enteiprises in the economy, an easy to achieve balance between conflicting social interests, a better distribution of income and reduction of working hours) being handled so as to offer the much needed impulse."[23]

Maddison's excellent and comprehensive study concludes that the expansionist "golden age" of the post-war decades came to an end in 1973, and that we are entering upon a new era which is structurally different from the period 1950-1970. The following would appear to be the most deep-seated causes: changes in economic policy, where the commitment to maintain high and stable levels of demand has faded out and the dominant influence has become that of monetarism, which as a pre-Keynesian economic theory shows little concern for growth and full employment; the collapse of the Bretton Woods system and its replacement by a system of fluctuating exchange rates, which introduces instability and uncertainty into the international economic system; changes in the labour and merchandise markets and the creation of strong inflationary expectations as

a determining factor in price-fixing and wages; the oil shocks; the end of a phase of rapid increase in productivity in the European countries and Japan, which have now made up the leeway with which they started after the war and are approaching a slowly expanding technological frontier, determined essentially by the United States economy; the exhaustion of the productivity increments attributable to structural transfers from agriculture to industry and to international specialization; and, lastly, the establishment of restrictive policies which reduce productivity by stunting the growth of the stock of capital and undermining the efficiency of resource allocation.[24]

On the Latin American internal plane, the transnational development style which so dynamically asserted itself during the post-war decades, on the basis of unbridled promotion of immitative consumption, began to show serious shortcomings and disequilibria as early as the 1960s. It managed to keep going until 1980, however, thanks to international liquidity and the great financial permissiveness which made it possible to step up the expansion of consumption, investment and exports by means of external and internal borrowing. The recent international recession has, therefore, had exceptionally serious repercussions on Latin America, bringing to light in addition the gravity of the structural problems which the development style had long been trailing in its wake, and which the financial boom had made it possible to cover up. They are essentially problems of external imbalance, dependence and vulnerability; of intensive concentration of the fruits of economic and social progress, in terms both of income and ownership and of their geographical complement, and of unemployment, underemployment and poverty and socio-political marginality in very large sectors of the population.

As regards the external structural framework, to the traditional problems of instability and the relative downward trend of commodity prices, exacerbated in a climate of sluggishness and great instability in the industrialized economy, are added strong protectionist pressures, especially in respect of certain traditional agricultural products and the new exports of manufactures which the Latin American countries have been taking such pains to develop in order to diversify their exports and

obtain access to an international economy which is now closing its doors to them.

On the imports side, the period of expansion and prosperity in the international economic and financial system permitted the consolidation of a transnationalized segment of the national economies, characterized by the life styles and consumption patterns that imply a capital-and oil-intensive structure of production and technology with a high and very dynamic external content. This has been a serious problem not only for the petroleum-importing but also for the petroleum-exporting economies. Severely cutting down imports in order to cope with the long-term maladjustment, in a situation of high petroleum prices and heavy external indebtedness, has implied a radical reduction of domestic consumption and investment, with pernicious effects on employment and levels of living among the low-income majorities. Meanwhile behaviour patterns, habits and expectations have been generated which are totally untenable, and which together with the corresponding aggravation of unemployment and poverty, will inevitably break out in the end in acute social and political tensions.

This is, moreover, the basic reason why the crisis has so drastically affected Latin America, and even some of the socialist countries, which have also been invaded by the transnationalization process, with its sequel of increasing external imbalances and accelerated international private borrowing.[25] The rest of the Third World, relatively less infiltrated by the transnational phenomenon, for both economic and cultural reasons, has not experienced to a similar extent either its past dynamic impulse or its present crisis.

In view of the prospects of a gloomy future in the international economy—stagnation, instability, uncertainty and a financial crisis—and the increasing seriousness of the structural problems of the development style both in the industrial countries and in our own, there can be no doubt of the misguided inadequacy of an approach concentrating on overcoming short-term problems by means of adjustment to a temporary recession in the international economy. It is a matter of supreme urgency to reformulate long-term development strategies, together with short- and long-term measures conducive simultaneously to surmounting the difficulties of the recession and unemployment,

and directing development towards a more dynamic, equitable and autonomous style, sustainable over the long-term. Regional co-operation among the Latin American countries, and between these and the other Third World countries, should play a fundamental role in this new development strategy.

VI

Development and Reactivation : Conditioning Factors and Options

To serve the debt or not to serve it, that is the question today. All the Latin American governments declare that they want to serve it, but many have been unable to do so and have left matters in suspense for spells of as long as six months. Nor have they been able to let this situation drag on for any greater length of time, finding themselves compelled to negotiate an agreement with the International Monetary Fund. This latter is imposing monetarist policies of severe restriction of global demand, designed to generate balance-of-payments surpluses on current account, in exchange for which it facilitates the refinancing of the debt for annual periods, with contributions of its own and from the creditor banks. These agreements have managed to survive in some cases but in others have been unable to withstand internal socio-political pressures, so that this very short-term cycle starts all over again. Thus we have gone on for three years, waiting for Godot to bring a world reactivation that has not yet come, and probably never will.

This reveals a situation in which the costs of serving the debt and of not serving it are alike intolerable in terms of economic and social penury, and of political instability. The transnational banks and the developed countries are prepared to accept temporary moratoria and prefer short-term refinancing, a sign that they fear the consequences of a financial breakdown; but they do not dare to embark upon long-term refinancing or financing, a sign that they place no reliance on the resumption of dynamic international development or on the payment capacity of the debtor countries. Neither alternative would appear to offer a way out. They are only momentary stopgap arrange-

ments, with no prospect ahead but a gradual worsening of the existing situation.

It is essential to avoid catastrophic options, as well as the current deterioration. To that end, an international and national strategy of greater scope and breadth would need to be designed. It would be a question of establishing common basic principles for the creation of a new set of international public institutions to support development and the dynamization and stability of the international economy. Within this framework, each country would be able to negotiate its debt or not, according to its own special circumstances, but in a context that favoured development rather than hampering it. However, the efforts in this direction that have been made year after year have met with no response in the leading industrialized countries.

Furthermore, it is absolutely indispensable that the industrial countries should start out again on the road of economic expansion and should reopen their economies to international trade on the basis of active industrial and agricultural readjustment policies and the maintenance of policies of full utilization of production capacity. The Bank for International Settlements itself recognizes that room for manoeuvre has been created which makes greater economic activity possible without the risk of unmanageable inflationary pressures, and that restrictive monetarist policies have been carried too far.[26] Nevertheless, the analysis presented in the foregoing sections reveals the serious structural and political obstacles to such an advance.

The exorbitant external debt accumulated by most of the Latin American countries is the responsibility of the transnational banks, of the governments of the industrial countries and of the governments and ruling classes of the debtor countries. The servicing of this debt is impossible on a basis of constricting the debtor economies and reducing them to a state of stagnation. That will inevitably lead to further defaulting. Moreover, it is morally unacceptable that the burden of the debt should be laid by monetarist policies, through unemployment and reductions of real wages, on present and future generations of workers who have had nothing to do with it. It is, therefore, indispensable that the cost of debt servicing should be shared by those responsible for the debt and those that have enjoyed its ephemeral benefits. At the international level, the transnational

banks and the governments of the industrial countries must assume their quota of responsibility, facilitating debt servicing by extending maturities to periods of 20 or 30 years, establishing grace periods of at least five years and reducing real interest rates to their historical levels. In addition, these countries must provide new long-term credit at similar rates of interest so that reactivation can be achieved through new development strategies in the debtor economies. Nor are these objectives easy to attain, although implicit or sometimes explicit recognition is beginning to be accorded to the necessity of making some move in this direction.

At the internal level, the more heavily indebted the Latin American countries are, the more need they have to reformulate their development policies, directing them towards three fundamental objectives : employment, export expansion and diversification and the concentration of available resources on meeting the basic needs of the deprived masses. Only a reasonable and sustainable proportion of the foreign exchange obtained from export earnings should be allocated to debt servicing : the rest should be reserved for importing essential goods directly or indirectly for popular consumption and capital accumulation, the latter in its turn to be used exclusively to satisfy popular consumer requirements and accumulation itself. The restriction of non-essential consumer imports would be the contribution of the privileged sectors to the servicing of the external debt for which they were partly responsible.

The adoption of measures favouring an internal reactivation geared to the application of a new development strategy calls for a freedom of manoeuvre in economic policy which the agreements with IMF prevent. As was pointed out at the beginning of the present Chapter, the crucial dilemma facing economic policy at the present time is the question of how to achieve a severe compression of imports which will allow a considerable surplus to be built up on current account for the purpose of serving the external debt. The monetarist prescription, one of the objectives of which is to maintain or obtain external openness, consists in restricting global expenditure on consumption and investment to the point at which demand for imports dwindles sufficiently for this objective to be attained, while it is assumed at the same time that in this way resources

will be set free to increase exports. According to our analysis, this approach is mistaken and overburdensome in economic and social terms. Mistaken, because the mobility of the factors of production is low and the short-,medium- and long-term prospects of the international economy are discouraging, so that a rapid and considerable expansion of the volume and value of exports is very unlikely unless as the consequence of a deliberate medium-term policy at the national and international level. Over-costly, in terms of employment and popular consumption, because the import demand function can be modified by direct acts of intervention to restrict imports through taxes, tariff duties and exchange controls, discriminating between those that are essential and those that are of less critical importance, and thus ensuring a level of investment, production and essential consumption which will minimize the effect of the crisis on employment and the levels of living of the lower-income sectors. While this policy involves a change in relative prices and assuredly a rise in price levels, it does not necessarily imply uncontrollable inflation in so far as idle capacity exists, a tax policy is applied which strictly limits the income and expenditure of the most affluent sectors, and an income policy is adopted which prevents unjustified wage increases.

Economic policy also requires enough freedom of manoeuvre for short-term reactivating measures to form part of a long-term development strategy, oriented towards the objectives indicated above, and founded primarily on those natural, human and infrastructure resources with which these countries are fairly comfortably endowed, and which constitute the only sound and permanent basis for sustained development.

Obviously, the less the negative international context improves and the less support is given to proposals in respect of trade, finance and investment, the more austere these policies will have to be. It is urgently necessary to face up to the possibility that perhaps nothing of any significance may be obtained from the industrialized world or the international institutions and carefully to explore what this would mean in terms of development strategies designed to cope with such a situation.

The lessons taught of history must be learnt. A development of the productive forces which is directly channelled towards the satisfaction of the basic needs of the broad masses

and the elimination of dependence cannot be achieved through the massive incorporation of a transnational development style of the individualist consumist type, making highly intensive use of imported capital, energy and technology. This has not been possible either through the deliberate promotion of such "modernization" (post-Keynesian developmentism), or —much less still—through indiscriminate external openness and privatization (monetarism), even in an exceptionally favourable international context. The transnational style simply cannot be generalized to the whole of society. In the best instance, the case of developmentism, it benefits a minority more or less sizeable according to the country concerned, but the broad masses linger on in hopeless poverty. In the case of monetarism, insecurity is far greater, development and diversification of the structure of production far less, and external vulnerability and dependence are overwhelming.

It cannot but be recognized that true national and regional development will have to be based primordially on transformation of the resources and natural environment in which Latin America is relatively rich, incorporating the efforts of the entire population, together with the adoption of life styles and consumption patterns and of techniques and modes of organization appropriate to this natural and human environment; with very prudent and efficient utilization of the little capital available, especially its imported component; and all this with the explicit aim of producing current goods and services and accumulating the basic social capital required by the majority sectors of the population to improve their levels of living and of productivity. It must not be forgotten that in this respect Latin America has substantially improved its potentialities in recent decades.

Regional co-operation must play a role of the greatest importance in these new internal and international tasks : at the level of North-South negotiations, by persisting in the promotion of a reform of the international system such as that suggested above, and in this context, supporting the renegotiation of the external debt of countries so requiring on the terms indicated, but at the same time exploring the alternatives that might be adopted should this line of action fail. A second aspect of supreme significance is the revitalization of the

regional integration institutions, which will facilitate inter-Latin American trade, payments and investment, and to which end greater room for manoeuver in economic policy will also be needed. A further crucial aspect is support for all possible forms of integration and co-operation as between the Latin American region and the rest of the Third World. Lastly, it would be impossible to exaggerate the importance of economic and technical co-operation, in every respect, and particularly as regards exchange of experience and information on all topics pertinent to the new national and international development strategies suggested.

From the type of analysis set forth in this article it is obvious that the proposals put forward, both at the domestic and at the international and regional level, imply radical political changes. In the last analysis, it is necessary that the predominance of international trade and financial interests and their respective local transnational bases be replaced by broad national coalitions, representative of a majority of social sectors, which accord priority to the expansion of employment and economic activity and to income distribution, rather than to excessive concern for monetary and financial equilibrium. This happened in many countries after the 1930 crisis, and it may be that the crisis of today will do much to enforce a similar adjustment. But this is not a matter of history repeating itself. There are now new social sectors which did not exist in the past or which were ousted or bypassed by recent development policies. They include, among others, the vast marginal urban sectors and the rural pockets of extreme poverty, the new contingents of young people who have had access to education, the labour force, resulting from the incorporation of women into the labour market. the important highly-skilled middle strata, all of which would have to be well represented in the formulation and implementation of the new development strategy that is needed now to overcome the crisis.

This is the most important of the many issues that will have to be very seriously tackled as part of the effort to find new paths to development.

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1. Here I am referring to the propositions, intentions and measures incorporated in development policy, not to what was actually achieved.
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3. See R. Devlin, "Commercial bank financed from the North and economic development of the South : congruence and conflict," and "Renegotiation of Latin America's debt ; an analysis of the monopoly power of private banks", in *CEPAL Review*, No. 9, December 1979, and No. 20, August 1983, respectively.
4. See O. Sunkel, "Comentarios sobre E. Bacha y C. Diaz-Alejandro : Mercados financieros: una vision desde la semiperiferia", in R. Ffrench-Davis (compiler), *Las relaciones financieras externas, su efecto en la economia latinoamericana*, Mexico, Fondo de Cultura Economica, Serie Lecturas No. 47, 1983, p. 69. The foregoing pages are a revised version of this article.
5. For the most recent detailed description, see Enrique V. Iglesias, "Preliminary overview of the Latin American economy during 1983", in this same issue of the *Review.*
6. *Ibid.*, table 2.
7. See Charles P. Kindleberger, *The world in recession 1929-1932,* London, Allan Lane, the Penguin Press, 1973.
8. This is neither the time nor the place to discuss so disquieting a hint of mass transfer of the natural and public wealth of our countries as a means of attenuating external indebtedness, except for the purpose of drawing attention to the strategies which the international financial community may be exploring. Furthermore, it is logical to suppose that this process must already be taking place in the private sector, in which respect too it would behave us to keep our eyes open.
9. The next section is based mainly on the following documentation: Bank for International Settlements, *fifty-third Annual Report*, Basie, June 1983; United Nations, *World Economic Survey 1983, Current trends and policies in the world economy,* New York, 1983; UNCTAD, *Trade and development report, 1983* (Part I. The current world economic crisis), September 1983; *Financial Times*, "Financial Times Survey: Europe", 5 December 1983; Anatole Kalestsky, "West Europe's economies: sink or swim together," *Financial Times*, 5 December 1983, p. 16; *International Herald Tribune*, "Euromarkets, a special report", Part I and Part II, 28 and 29 November 1983, pp. 7-15 and 9-14, respectively.

10. Bank of International Settlements, *Fifty-third. . .* , *op. cit.*, p. 31.
11. The current value of Latin American imports has shrunk by almost one half between 1981 and 1983: from US $90 billion to US $56 billion (see Enrique V. Iglesias, *Preliminary overview. . .* , *op. cit.*, table 1).
12. "The word economy at century's end", *Japan Economic Journal*, 10 March 1983.
13. See *Late capitalism*, London, New Left Books, 1975; *The second slump : a marxist analysis of recession in the seventies*, London, New Left Books, 1978.
14. See Bank for International Settlements, *op. cit.*, pp. 3-4.
15. This phenomenon is well documented. See H. Giersch and F. Wolter, "Towards an explanation of the productivity slowdown: an acceleration-deceleration hypothesis"; A. Lindbeck, "The recent slow-down of productivity growth"; and E.F. Denison, "The interruption of productivity growth in the United States", all in *Economic Journal*, 93 (March 1983). See also D.M. Leipziger, "Productivity in the United States and its international implications", *The World Economy*, Vol. 3. No. 1, June 1980; T.P. Hill, *Profits and rates of return*, Paris, 1979; S. Rosenberg and T.E. Weisskopf, "A conflict theory approach to inflation in the postwar US economy", *American Economy Review*, Vol. 71, No. 2, 1981; OECD, *Economic Outlook*, December 1978.
16. See, for example, Angus Maddison, *Phases of capitalist development*, Oxford and New York, Oxford University Press, 1982; W.W. Rostov, "Kondratieff, Schumpeter and Kuznets : trend periods revisited," in *Journal of Economic History*, December 1975, and his book *The world economy*, London, Macmillan, 1978. See also Mandel, *op. cit.*, and the special number of *Futures* (Vol. 13, No. 4, August 1981) on "Technical innovation and long waves in world economic development," edited by Christopher Freeman.
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18. See F. Frobel, J. Heinricks, O. Kreye, *Die neue international Arbeitsteilung*, Reinbek bei Hamburg, Rowohlt, 1977.
19. The hypothesis set forth can be applied, with the appropriate reservations, to other non-renewable as well as to renewable natural resources, and particularly to certain eco-systems of critical significance for human survival in specific localities. This subject has been explored in recent years by the Joint ECLA/UNEP Development and Environment Unit in a number of studies : *Estilos de desarrollo y medio ambiente en la America Latina*, selection by O. Sunkel and N. Gligo, Serie Lecturas No. 36, Mexico, Fondo de Cultura Economica, 1980; O. Sunkel, *La dimension ambiental en los estilos de desarrollo de America Latina*, E/CEPAL/G. 1143, Santiago, ECLA/UNEP, 1981; N. Gligo, "Estilos de desarrollo, modernizacion y

medio ambiente en la agricultura latinoamericana", in *Estudios e Informes de la CEPAL* No. 4, E/CEPAL/G. 1117, Santiago. ECLA/UNEP, 1981; "Estilos de desarrollo de la industria manufacturera y medio ambiente en America Latina", in *Estudios e Informes de la CEPAL* No. 11, E/CEPAL/G. 1196, Santiago, ECLA/UNEP, 1982; "Informe del seminario regional sobre metropolization y medio ambiente", E/CEPAL/L. 266, Santiago, 1982; "Estilos de desarrollo, energia y medio ambiente : un estudio de caso exploratorio", in *Estudios e Informes de la CEPAL*, No. 28, E/CEPAL/G. 1254, Santiago, ECLA/UNEP, July 1983; *Expansion de la frontera agropecuaria y medio ambiente en America Latina*, CEPAL/CIFCA, Madrid, 1983; *Sobrevivencia camposina en ecosistemas de altura*, E/CEPAL/G. 1267, Santiago, ECLA/UNEP (in the press).

20. Bank for International Settlements, *Fifty-third Annual..., op. cit.*
21. A good summary, with neoliberal leanings, is to be found in H. Lapage, *Manana, el capitalismo*, Alianza Editorial, 1979. See also P. Dews, "The nouvelle philosophie and Foucault", in *Economy and Society*, Vol. 8, No. 2, May 1979, in relation to the critique of the Welfare State.
22. United Nations Economic Commission for Europe *Structural changes and analysis of labour productivity in the ECE market economies and some implications for future economic growth*, December 1982, pp. 5759.
23. See S. J. Patel, *Reflections on the economic crisis and the Third World* (mimeographed text).
24. See A. Maddison, *Phases of......op. cit.* A similar list is to be found in W. Arthur Lewis, "The slowing down of the engine of growth", *The American Economic Review*, September 1980. Vol. 70, No. 4, pp. 558-559.
25. United Nations Economic Commission for Europe, *The impact of international economic relations on medium- and long-term trends and prospects*, December 1982, pp. 16-25 and 34-37.
26. Bank for International Settlements, *op. cit.*, pp. 7 and 31.

PART B

BEYOND SLOGAN OF SOUTH-SOUTH CO-OPERATION

5

Reflections on the Present World Economic Conjuncture

SUKHAMOY CHAKRAVARTY

DID the engine of economic growth slow down during the 1970's? If so, what were the reasons? Are these reasons likely to apply to the 1980's? These are some of the questions which are being debated anxiously by ordinary people, professional economists and policy makers in the developed as well as the developing countries. In this Chapter, I propose to address myself to these questions with a view to indicating certain areas of enquiry which require more serious investigation.

On the first question, the authoritative judgement given in knowledgeable circles is that since 1973, the world economy is going through an extended period of slower growth. According to the *World Economic Survey* published by the United Nations in 1980, developed market economies which recorded an annual average growth of 5 per cent over the period 1962-1972, at 1977 prices, witnessed a modest growth rate of only 2.7 per cent in the years 1974-1979. The rate of growth of the last three years has not improved upon the record initiated in 1974. In its *World Economic Outlook, 1981*, the IMF has estimated a rate of 1.25 per cent for 1980, and 1.5 per cent for 1981 while it expected the rate to be no higher than 2 per cent in 1982.[1] What is even more disquieting from the point of view of social concern is that while the average rate of unemploy-

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ment in seven industrial countries (Canada, the US, Japan, France, FRG, Italy and the UK) over the period 1963-1972 was as low as 3 per cent, the corresponding rate for 1981 was as high as 6.6 per cent, with rates exceeding 10 per cent for the UK and nearly 8 per cent for the US. Furthermore, the rate of inflation has also been very high judging by the record of what was achieved during the first two decades after the Second World War. Taking the GNP deflator as a measure of inflationary pressure, the average rate of change over 1962-1972 was 4 per cent while the rate of change since 1973 has invariably exceeded 7 per cent for the large industrial countries, with the rates lying in the neighbourhood of 10 per cent for most of the time. Among these countries, the UK has experienced the largest rate of increase while FRG has recorded the maximum amount of price stability.

Thus, there is little reason to doubt that the world economic scenario turned sharply adverse in the 1970's, at least as far as the developed market economies are concerned. According to the UN, however, the picture is not modified qualitatively when the entire world is taken into account although the numbers are somewhat different. Thus, the average rate of growth for the period 1961-1973 for the world as a whole was 5.4 per cent while the corresponding rate for 1974-1979 was 3.6 per cent, including the oil-exporting countries and centrally planned economies.

Some Explanatory Hypotheses

How do we explain this downturn of the 1970's? Initially, it was widely believed that the downturn was a product of the socalled 'oil shock'. There is little doubt that the several-fold increase in the price of oil did give a rude jolt to the economies of oil-importing countries. However, the extent of the loss in real income posed by the deterioration in the terms of trade for the industrial countries is given in Table 1.

Table 1: Change from Preceding Year

	1973	1974	1975	1976	1977	1978	1979	1980	1981
Developed industrial countries	-1.5	-11.5	2	-1	-1	3	-3	-6.5	-0.4

Source : IMF, *World Economic Outlook, 1981*, Appendix B, Table 7.

This shows that the extent of overall change brought about by the increase in energy prices has been nowhere near as high as developed countries sometimes try to make out. In contrast, for non-oil developing economies, the situation has been far more serious. For the 1960's, the deterioration in the terms of trade was slow but steady; for 1970's the rate of decline has been much more pronounced (Table 2).

Table 2 : Compound Annual Rate of Change

	1962-72	1973	1974	1975	1976	1977	1978	1979	1980	1981
Non-oil developing countries	-0.5	6.5	-7	-9	2	6.5	-5.5	-0.5	-3	-3.5

Source : IMF, *World Economic Outlook, 1981*, Appendix B, Table 7.

Furthermore, it is the developed countries which have earned service incomes such as banking charges as well as benefited from the recycling operations.

It is, therefore, difficult to make out the case that the 'oil shock' has served as the principal causal factor which changed the entire scenario, although in a certain long-run sense, it may have had a more serious impact, by pointing towards the need for conserving scarce non-renewable resources.

An influential group of economists has made the point that the real problem has arisen with the breakdown of the Bretton Woods system and its replacement by *ad hoc* floating arrangements. This argument may be more substantial than the one referred to earlier. However, it should be remembered that the decision to abandon the Bretton Woods system was undertaken by the most important market economy, *i.e.*, the USA, because it felt that the system was constraining its domestic option in regard to growth with stability. Furthermore, France had never been happy about the US hegemony reflected in the Bretton Woods arrangement. Thus, it is not clear why the use of floating exchange rate system should, in itself, lead to a slow-down in the growth performance, especially for the

developed countries with very well developed financial arrangements.

A third important reason that has been frequently cited is the slowdown in the rate of growth of real output per employed man-hour. Here the argument seems to be on a somewhat firmer ground. However, there are important problems that must be borne in mind. First, there have been significant differences between the experiences of different countries. Secondly, the shift to the 'service sector' which is said to be partially responsible for productivity slowdown reflects a number of very distinct developments. First, the so-called 'income elasticity' argument is in favour of services. A part of the shift may be attributed to the growth in real income per head experienced over the 1950's and 1960's. But this is not all that there is to the expansion of services. Some of the expansion may reflect the fact, especially in the US and the UK, that service sector expansion was a buffer, reflecting in itself the fact that manufacturing output growth was slowing down because of a serious demand problem.

This takes one to the next point, whether an increase in productivity growth would have provided an answer to the problem. If the economy were competitive in character in its essential functioning, then possibly downward pressure on prices exerted through cost reduction would have led to market widening and hence raised the rate of growth to some extent. However, in the absence of positive intervention by the State of a demand-stimulating nature, this need not be a correct inference for the economies of mature capitalist country.

This takes us to the additional explanation that the government action has been impeded by the emergence of strong inflationary expectations. A great deal of importance is attached by the so-called 'monetarists' to this factor, whose strategy consists in breaking this expectation syndrome by pursuing a policy of serious cutback in public expenditure and other deflationary measures. Britain is at the moment engaged in such an experiment. Informed observers are of the opinion that while this policy may have somewhat moderated inflation, it has certainly exacerbated unemployment and led to loss of real output.[2] So far, there is little empirical basis for the monetarist prediction that if only sufficient time were allowed to pass, the

unemployment level would come down to the so-called 'natural rate', whatever that expression may mean.

Quite apart from the question as to whether the monetarist policy prescription will prove an efficacious one for Britain or, say, the USA, the basic problem remains that the emergence of inflationary expectations cannot be regarded as an exogenous phenomenon. Instead, the increasing amount of inflation-proneness of the world economy, and more particularly that of developed countries, must be attributed to the combined functioning of several features which marked the so-called 'golden age' of the 1950's and the 1960's. To my mind, three important characteristics must be noted : (*a*) the growing hold of monopolies in the key sectors of any advanced industrial economy; (*b*) the drying up of the labour reserve as a result of the sustained expansion of the post-Second World War period which showed itself in the absorption of the unemployed, sustained transfer of labour force from agriculture and also changing participation ratios; (*c*) the permissive monetary-fiscal policy which was greatly helped by the US continuing to run a balance of payments deficit over many years.

Many who put their belief in the so-called 'neo-classical synthesis' based on the combined wisdom of Adam Smith and John Maynard Keynes came to the conclusion that the capitalist system could be rendered stable from cyclical disturbances and may be expected to grow steadily to a 'golden rule' configuration only if monetary-fiscal policies were appropriate.

They seemed to have convinced themselves against all historical evidence that full employment equilibrium could be rendered stable through enlightened economic policy. They differed from monetarists in disagreeing about the need for active fiscal and monetary intervention because they attached great stability to the econometrically estimated behaviour relationships from which policy multipliers could be suitably deduced.

Events of the 1970's would seem to suggest that they did not reckon with the fact that for an economy which is pervasively characterised by monopoly, effects of changes in economic policy instruments could not be deduced unambiguously because the underlying stability conditions had not been properly investigated, a point that Hicks recognised quite early and then

proceeded to ignore. The mainstream economics profession seems to have followed Hicks in this regard with the conspicuous exception of a few economists such as Joan Robinson and M. Kalecki.

However, the difficulty with the most advanced formulation which was that of Kalecki consisted in the fact that while he recognised the existence of a 'political business cycle', an idea of considerable fecundity, he had hardly a theory of growth. As a matter of fact, as early as the mid-1930's, Frisch had shown that the dynamic system used by Kalecki could either generate a steady rate of growth or oscillation but not both.[3] However, as one has only obtained historically situations of oscillating growth, the theory was basically incomplete. Steindl, who carried forward Kalecki's work, also did not succeed in integrating growth-promoting factors that tended to generate stagnationist tendencies.

Summing up, one may then conclude that if one were to take into account the structural vulnerability of capitalism to swings in activity, one should not be unduly surprised to find that prosperity gave rise to depression because, as Clement Juglar pointed out a long time ago, there is only one cause of depression, that is, prosperity.

One can, however, question the above conclusion by pointing out the unusually long span of prosperity and argue that this reflects an altogether changed set of structural features that still permit of control at fairly high levels of economic activity. To judge such an argument, it is necessary to discuss, although somewhat briefly, the theory of long waves in economic activity which analysts with exceedingly varied ideological and scientific backgrounds, such as Forrester, Mandel and Rostow,[4] have sought to revive recently.

The Theory of Long Waves

The 'theory of long waves' in economic life or, better still, the hypothesis that capitalist economies display long cyclical upswings and downswings was highlighted a great deal by Schumpeter in his theory of capitalist economic evolution as put forward in his massive two-volume study, *Business Cycles*. Schumpeter made copious acknowledgement of the work done

by the Russian economist, N. D. Kondratieff, in whose honour he christened the long waves as Kondratieff cycles.[5]

It, however, appears that the hypothesis was first put forward by a Dutch socialist J. van Gelderen who wrote, under the pen-name J Fedder, an extended article on the subject in the Dutch socialist *magazine De Nienwe Tijd* as early as 1913.[6] The article has not unfortunately been translated into English so far. However, a fairly extensive summary is given by Simon Kuznets in his book *Secular Movements in Production and Prices* from which it is possible to gain a reasonably clear idea of van Gelderen's argument. There is little reason to question the fact that van Gelderen had hit on the idea in a fairly precise sense and the subsequently work by Kondratieff which was apparently done quite independently based on a more extensive statistical analysis of the relevant data, did not constitute any conceptual break-through compared with van Gelderen's work.

Van Gelderen described the upswing of the 'long wave' as 'spring tide' ("Springvloed Beschouwingen") and argued that they came to an end because of two major reasons. These two reasons were summarised by Simon Kuznets as follows: "The end of the period comes because (*a*) the acceleration of production and trade cannot go beyond the point of saturation of markets to which the highly developed capitalistic countries export. And this movement is hastened by the industrialisation of the importing countries. (*b*) The production of raw materials, whether organic or inorganic, cannot keep pace with that of finished products. Summing up the theory in a nutshell, the major cycles form a periodic change in capitalistic development, a periodic change whose function is to bring about in the expansion of the capitalistic form of economic life a proper distribution of productive forces (labour and capital) over a greater number of countries that heretofor were outside of the closely bound national economies."[7]

We have quoted these lines from Kuznets not for reasons of historical curiousity but because they have a very contemporary ring, even more than Kondratieff's article which is generally the only one referred to in this context. Van Gelderen's countryman, another Dutch Marxist, S. de Wolff, drew a number of important social implications of the existence of 'long waves' in a very interesting essay which was written in honour of Karl

Kautsky. These dealt with the differential policies pursued by labour unions in times of prosperity 'spring tide' and depression (ebbtide').

In spite of the highly suggestive work done by van Gelderen, de Wolff and Kondratieff, and the strong endorsement given by Schumpeter, many economists, including Kuznets himself, have been reluctant to accept the hypothesis of 'long waves' because of the absence of a 'firm' theoretical foundation.[9]

However, in the context of the depressed conditions of the 1970's, fresh impetus has been given to seek theoretical and empirical bases for the hypothesis behind 'long waves'. Forrester, Mandel and Rostow have each come out with his own formulation, which cannot be altogether disregarded. In short, the hypothesis that 1974 marks a downturn of the Kondratieff cycle has more than superficial plausibility considering the fact that the two and a half decades following the Second World War display many of the features of 'spring tide' initially described by van Gelderen. Considering the fact that since 1973 recoveries have been very brief and the stagnationist trends persist with no clear end in sight, it is not altogether without any justification to assume that the world has entered the downgrade of a Kondratieff cycle.[10] The argument gains in strength if one takes into account the problems which have also beset the 'socialist economies' although there the impact is felt in terms of greatly reduced rates of growth rather than in terms of unemployment. Meanwhile, the social implications to which de Wolff had drawn attention are very much in evidence in the developed market economies.

However, it would be extremely simple-minded even if one accepted the hypothesis of 'long waves' for the sake of argument to expect that there will be an automatic recovery if only one were to wait long enough for the new innovations such as micro processors to find application over a sufficiently large scale. First of all, one should remember, as Schumpeter used to say, that every cycle is a historic individual. Different cycles are never the same in real time. Secondly, the existence of 'long cycles' does not preclude the possibility of long-term mutations taking place in the character of the economic system and there is plenty of evidence that the capitalist system has changed a great deal since the Great Depression of the 1930s.

In fact, Mandel's views, in contrast with Kondratieff, appear to be that the downswing was triggered off by a fall in the long-run rate of profit, which was partly due to the exhaustion of technological stimuli and in part due to the structural changes. For him the central dynamic is given by the Marxian theory of falling rate of profit based on the secular increase in the organic composition of capital, compensated to an insufficient extent by the rise in the rate of surplus value. However, as there is no clear evidence that the 'value' organic composition of capital has, in fact, risen during this period. Mandel produces no acceptable statistical analysis in favour of his hypothesis. In fact, a serious statistical attempt to substantiate this proposition was undertaken by E N Wolf who comes out with a negative finding.[11]

While Mandel has used the Marxian two-department scheme, Rostow has used the distinction between industry and raw materials producing sector as the relevant disaggregation for the 'long cycle'.

One cannot help feeling that both Mandel and Rostow, in very different ways, are trying to model 'long cycles' on the analogy of 'decennial cycles', an exercise which, to be convincing, must be dynamically specified on premises which are logically consistent and factually warranted.

In my opinion, by the *strict* criterion of what constitutes a cycle, there is no clearly discernible long cycle for many 'quantity series' as distinct from the series dealing with prices, interest rates, etc. This problem was recognised by Kondratieff himself although he did hope that more analysis and evidence will help to decide the issue. What the data unquestionably show are recurrent periods of prolonged depression and prosperity. They may result from a combination of important structural changes superimposed on the underlying cyclical mechanisms which are generated by what Tinbergen called 'life cycles' and 'lag cycles'. But more importantly, our inability to date to say anything definitive on the problem of 'long waves' may arise from the fact that formal economic dynamics has so far failed to integrate the problem of the trend with that of the cycle. Forrester's simulation studies based on the combination of several sinusoidal motions may provide economists with material to ponder upon.

Lenin's Analysis

Does the present world economic situation bear out the analysis given in Lenin's work on "Imperialism"? I believe that, in some respects, it does. This refers to the law of uneven development of capitalism which tends to get accentuated in the context of monopoly capitalism.

Contemporary developments show that even when a particular country, namely, the USA, enjoyed hegemony, rules of the capitalist game permitted rival centres of economic power to emerge and a part of the explanation for the breakdown of the Bretton Woods monetary system reflects this fact.

Furthermore, Lenin's rejection of the idea that there could be 'planned capitalism' under the conditions of high degree of concentration and centralisation of capital also seems to gain in support from recent developments. This is in contrast with the 1950's and early 1960's, when economists, armed with econometric techniques and Keynesian theory, felt that the problem of stabilisation was necessarily soluble.

However, there are two fundamental respects where Lenin's theory would require very considerable revision. First, unlike Marx, he attached little or no importance to technical progress under capitalism. This is possibly because he felt that monopoly would necessarily be "moribund" or "parasitic". This proposition is neither theoretically nor empirically justified. Secondly, the growth of multinational corporations does replace very considerably the theory of 'finance capitalism' developed by Hilferding in his *Finance Capitalism* on the basis of a careful analysis of the 19th century German experience. The mode of functioning of multinationals is not in contradiction with the basic Marxian theory of Capital as a 'self-valorizing' process. But it has a different method of functioning based as it is on the reinvestment of internally generated surpluses.[12]

This point is very important in relation to developing countries. It may be recalled that Lenin attached considerable importance to the 'export of capital' to developing areas as he expected the rate of profit to be higher in the low wage countries, endowed often with abundant raw materials. For him, it was the *essential* point behind imperialism, a matter of

structural necessity in the face of rising organic composition of capital.

It would appear that the developments in the post-World War II period have been considerably different. While only a few developing countries such as Brazil have received capital from abroad on a significant scale, if 'official loans' are excluded, the great bulk of direct foreign investment has been amongst the highly developed countries themselves. The so-called 'American challenge' was first felt acutely in Europe. That developed countries tend to trade mostly amongst themselves so far as manufactured products are concerned is an important fact requiring substantial revision of theories of international trade as well as Marxian analysis based on the pre-World War I data.

A partial explanation of the recent developments on the Marxist lines can be based on the growing militarisation of the world economy which created demand overspill from the leading capitalist country, the USA, into fast moving economies such as Japan and West Germany, which permitted the rate of profit to rule fairly high for the first two decades after the Second World war. But it would be factually wrong and theoretically misleading to see the entire explanation as lying within the framework of such a hypothesis. Military expenditure does help in resolving the problem of effective demand if it is financed through budget deficit, which can serve as an effective substitute for the 'external market', narrowly defined. This is a point which Kalecki recognised a long time ago. But it cannot by itself explain the very substantial productivity growth which has characterised the world economy at least for the first two and a half decades. For that to happen, long range investments which lead to product and process innovation in key areas will need to take place. It is possible to maintain that a part of this investment was induced by increased military expenditure, but it is not possible to deny that for a substantial period, the rules of the capitalist game allowed productivity to go up. This is where I believe the hypothesis of 'long waves' does contribute an additional dimension to our understanding of the current economic situation, even though there are as yet substantial difficulties in finding an appropriate theoretical foundation for them.

To sum up, Lenin was entirely right in rejecting the possibility of a peaceful ultra-imperialism. He was also partially right in asserting that redistributive policies *a la* Hobsen were not consistent with the functioning logic of a mature capitalist economy. But he paid insufficient attention to the technological dynamism that monopoly capitalism could display even though he did not preclude the fact of growth under monopoly capitalism altogether. Schumpeter, who recognised this possibility abundantly, however, went to the opposite extreme of denying the existence of an effective demand problem altogether, even though he emphasised the cyclical vulnerability of capitalism as a mode of economic production. His specific reading of 'imperialism' is, in my opinion untenable which, however, need not occupy us here.

Concluding Observations

The present Chapter is much too brief in relation to the importance of the issues dealt with. Hence no summary is needed. But a few brief observations are in order.

First, mainstream economic theory is seriously deficient in not attaching sufficient importance to the fact of monopolistic/oligopolistic forms of market organisation. This is crucial to understanding the macro-economic functioning of the capitalist system, especially the phenomenon of the co-existence of inflation with unemployment and excess capacity.

Secondly, while Marxist theory contributes an important insight by emphasising the crucial role of 'capital' as a self-valorising process, it has so far paid little attention to the rules that govern the growth of productive forces under monopoly capitalism; nor has it developed any precise analysis of its laws of motion. Monopoly capitalism is not necessarily parasitic capitalism. It certainly produces a lot of waste, but rentiers do not necessarily have the upper hand.

Thirdly, major technological revolutions can take place under monopoly capitalism. But it needs the assistance of the State to do so. Close relationship between State power and corporate power is a particularly marked feature of monopoly capitalism, a point clearly recongnised by Lenin.

Fourthly, the present economic conjuncture has a number

of highly specific features. But it has also in common with earlier phases of sustained prosperities the fact that major technological innovations did play an important role, which involved 'new resources' such as uranium and its isotopes, changes in the labour process involving automatisation, etc.

Fifthly, while the economic conjuncture may show an improvement for the better in the near future, it is likely to be short-lived, as forces which can lead to sustained growth on a long-term basis are not yet visible. This has serious implications for the developing countries which are interested in following outward-looking policies based on import liberalisation and subsequent expansion of exports.

Finally, economists must always allow the phenomenon of 'novelty', a factor emphasised by dialectical reasoning. No mechanical extrapolation of a cyclical or a linear sort is permissible. We are dealing with what is in many ways (historically) a unique conjuncture. This always leaves room for the 'unexpected'. It would be foolish to ignore it simply because we cannot theorise about it.

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2. See C F Pratten, "Mrs. Thatcher's Economic Experiment," *Lloyds Bank Review*, January 1982.
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4. See E Mandel, *Der Spatkapitalismus*, Frankfurt am Main, Suhrkamp Verlag (English edition, London, NLB, 1976). See also W W Rostow, "A Simple Model of the Kondratieff Cycle", in *Why the Poor get Richer and the Rich Slow Down*, London, Macmillan, 1910, and J W Forrester, "Business Structure, Economic Cycles and National Policy", *Futures*, 1976, pp 195-214.
5. See J A Schumpeter, *Business Cycles*, New York, McGraw Hill, 2 volumes, 1939. Reference is to Kondratieff's work which was published in a German summary. See, "Die Langen Wellen der Konjunktur," *Archiv fur sozialiwi-sienschaft und sozial politik*, vol. 56, 1926, pp 573-609. An abridged English translation by W T Slolper was published in the *Review of Economics and Statistics*, vol. 17, 1935, pp 105-115.

6. "Springinvloed Beschouwingen over industrielle outwik keling en prijsbeweging", *De Nienwe Tijd*, 1913, pp 253-273, 369-384, 445-464.
7. Simon S. Kuznets, *Secular Movements in Production and Prices*. Boston, Houghton Mifflin Co., the Riverside Press, 1930, p 261, See, for a recent review of van Gelderen's work, E Mandel, *Late Capitalism*, London. NLB, 1976, See also Jan Tinbergen, "Kondratiev Cycles and so-called Long Waves", *Futures*, August 1981, pp. 258-263.
8. S de Wolff, "Prosperitats und Depression periode", pp 13-43, in *Der Lebendige Marxismus*, Festgafe "Zum 70 Goburbtage von Karl Kautsky" (also quoted in Kuznets, *op. cit.*), See also reference to Wolff's book *Het Economisc Getij* in W C Mitchell, *The Business Cycle : Problem and its Setting*, New York, National Bureau of Economic Research, 1927.
9. S Kuznets, "Review of Schumpeter's 'Business Cycles' ", *American Economic Review*, vol. 30, 1940, pp. 250-271.
10. One of the most significant characteristics of the upgrade of Long Wave is that prosperities are long-lived and recessions are of short duration, whereas in the down-swing, it is always the other way round. This characterisation fits the facts of the last two and a half decades very well.
11. E N Wolf, "The Rate of Surplus Value, the Organic Composition and the General Rate of Profit in the U S Economy," *American Economic Review*, vol. 69, June 1979, pp 329-341.
12. This does not imply that multinational banking system has not been playing a major role in the world economy, especially after the 1973 oil crisis. Their profits are quite considerable and they do transfer funds from one financial centre to another, which causes instability. The point is that because of a variety of factors, of which taxation is only one, internally generated funds have played a very major role in financing long-term investment during the 1950s and 1960s.

6

After The New International Economic Order : The Future of International Economic Relations

SAMIR AMIN

The failure of the New International Economic Order (NIEO) has perhaps yet to be recognized. But today can anyone claim that there is even one area in which any sort of progress has been achieved in the implementation of the Declaration and Programme of Action solemnly proclaimed by the United Nations General Assembly in 1974? Concurrently, can anyone today continue to assert that, that which unites the third world countries prevails over that which divides them? What can be the meaning of non-alignment when the super-Powers intervene here and there sometimes even at the very call of third world nations fighting against one another?

The failure of the so-called NIEO and the disintegration of the third world cannot be allowed, however, to divert attention from the fact that the crisis persists and that there have been real and fundamental changes in relations between the West and the East. It is not enough, therefore, merely to portray the failure of North-South "negotiations". Thorough analysis of the situation requires the reinsertion of "North-South" relations

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within the global context of the world economic and political system and changes within it.[1]

The objectives of the NIEO constitute a coherent programme responsive to the aspirations of the States of the third world. The internal logic of the programme : raising the prices of raw materials exported by the third world; a new push in export-oriented industrialization geared to developed country markets and based on cheap manpower and the abundance of natural resources; and the acceleration, at reduced cost to developing countries, of technological transfer—reflects the contradictory nature of the accumulation of capital on a world-scale. On the one hand, this programme can only be predicated on a deepening of the international division of labour : by increasing the rate of extractable surplus-value (through the super-exploitation of labour in the periphery), the programme permits an increase in the rate of profit on a world scale and can only be read, therefore, as a contribution to global capitalist development. On the other hand, contradictions emerge within the accepted framework of capitalist development between the strategies of the transnational corporations and the imperialist States, on the one hand, and those of the peripheral capitalist States and their *bourgeoisies*, on the other.

The Role of Transnational Corporations (TNCs) and the Third World in Relation to the NIEO

The transnationals have a peculiar interpretation of the "new order". For them, it is a matter of making more profit from the cheap labour and natural resources of the third world through the relocation of fragments of productive processes controlled by them. In this strategy, there is absolutely no intention of creating integrated national industrial economies, even of the externally-oriented variety, in the third world. On the contary, the whole point of the exercise as far as the monopolies are concerned is to transplant bits and pieces of industrial processes in an unintegrated form in the host countries, the better to perpetuate their control over the mechanisms by which economic processes are orchestrated on a world scale. Within this framework, transnationals can afford to make minor concessions to host countries, to the extent even of giving up

formal ownership of capital, in extreme cases. The fact that there is competition among third world countries for the "privilege" of "hosting" segments of industry, the lack of linkages in those countries between the segments subsequently transferred and the dependency of those segments, ensured by the technologies involved and by the obligation to export their products to metropolitan markets controlled by the very same monopolies, all have the effect of reducing the value of the formal ownership of capital by giving the monopolies the ability to impose the most restrictive conditions on their partners. That is *laissez-faire* on the scale of a world dominated by TNCs. Under these conditions, the very financing of this relocation by the use of resources generated from within the third world countries constitutes an additional gain to the monopolies engaged in the sale of such "tailor-made" factories. The mopping up of such profits for the benefit of the monopolies, is in effect, built into the structure of prices. Gains accruing to the TNCs from this channel can have the in-built effect of permitting resource transfers over and above the visible financial transfers accounted for by the sale of know-how, patents and trade marks and by interests on loans for expansion. Sometimes the price structures themselves are deliberately distorted in such a way as to deprive the relocated segments of their accounting profitability, the loans subsequently granted to cover their supposed "operational losses" being nothing more than a reincarnation of the eternal tendency of capital towards pillage : a new breed of finance capital, in the image of the old mercantilist variety thus crops up once again, in a throwback to the beginnings of capitalism, giving "primitive" accumulation a quality of permanence.

This strategy has a name and this is not just by chance : it is called "re-deployment". Actively supported by the World Bank, IMF and other organizational instruments of central capitalist domination, it passes off as a "new order," the multiplication of new enclaves in the form of "free zones". It is obvious that this strategy limits the role of the local State to the very minimum, that of policing the exploited labour force. The strategy has the additional objective of dividing the third world, not only by accentuating the gap between the "fast growing"

and "stagnating" developing countries but by also creating competition among countries of the first group.

What the third world countries, or at least the more dynamic among the non-aligned group, understood by a new international economic order is somewhat different. The reform of the international division of labour envisaged by them is supposed to accompany and reinforce the establishment of veritable national economies, self-centered and industrialized.

In the third world version of the NIEO a strong and activist State becomes the gurantee that the industrial scene will consist of integrated manufacturing processes rather than of a collection of partial units without local linkages. Equally, the reliance on imports for elements of these integrated chains (the series of "turnkey" factories purchased in this context, for example) implies a high level of exports, both of "traditional" raw materials and of new industrial products. The success of the strategy thus depends, to a large extent, on the ability to obtain the concessions demanded within the framework of a new international economic order.

The conflict between these two "interpretations" of the new order has surfaced in all the negotiations in which the international industrial division of labour and industrial "relocation" have been on the agenda, with the areas of conflict having to do with the nature of the relocation process and the type of units to be relocated, the extent of decentralized decision making that should accompany the process, its financial and technological implications, the training and managerial aspects of relocation and access to external markets. The third world countries generally insist on the installation of industries that are as complete as possible and have forward and backward linkages with one another. They also demand a well-defined framework in which agreements can be made that place industrial practices at the service of industrial policies determined by the State. Other third world demands include the indigenization of executive positions, access to international distribution channels for products manufactured locally (given the perception that the lowering of protectionist barriers by developed countries does not fully resolve the problems of access to their markets); support in the development of national technologies, the regulation of financing procedures (with a view, among other

things, to avoiding the situation in which the subsidiaries of the transnational corporations are able to finance their investments by drawing on local banking facilities, without bringing in new capital); and the control of transfers (including the sharing of risks, ceilings on profits transfers and obligations regarding the investment of part of these profits locally).

These "demands" have hitherto been rejected as "unacceptable" by the transnationals, only interested in partial relocation through subsidiaries under their effective control. Carried to the extreme, this robs the negotiating process itself of all meaning. On the other hand, the majority of third world countries are increasingly coming to accept, in effect, the strategy of redeployment favoured by the transnationals. Only those States which refuse the direct implantation of subsidiaries of the transnationals and seek their own factories purchased on a "turnkey" basis in place of such subsidiaries, and within the framework of integrated industrialization programmes, are in a position to negotiate.

In adopting this option, this group of countries relied on the possibility of modifying the international economic order in their favour through a combination of unilateral actions and concessions obtained in multilateral negotiations between the North and the South. It is worth recalling that the original idea was for the organization of third world producer cartels designed to force the revaluation of commodity prices. National control of natural resources was supposed to permit not only the control of supply but also, and above all, the implementation of a policy of resource exploitation based on long-term national interests, thus ending the practice whereby the rate of resource exploitation is determined exclusively by the needs of the developed world. With their positions thus strengthened the third world countries hoped to acquire the credible negotiating power needed to compel the necessary concessions from the North in such matters as market access, a code of conduct on technology transfer etc. Co-operation among third world countries (or "collective self-reliance") was inserted within this perspective and was ostensibly invoked to back it up.

The Failure of the Negotiations on the NIEO

The turth is, however, that the "negotiations" initiated since the oil crisis of 1973, and the adoption in 1974 of the Declaration and the Programme of Action on the Establishment of a new International Economic Order, have been fruitless.

In place of the original idea of producer cartels associating producers that have succeeded in re-establishing their control over their natural resources, the negotiation process has been conducted on the basis of an "integrated programme" for 18 commodities and a common fund for commodity price stabilization. And with what result ? Negotiations on each of the 18 commodities have either been postponed on various pretexts or failed altogether, and the Common Fund for Commodities has been established with a capital which stands at a level far below the minimal amount required for its meaningful operation. Along the way the idea of indexation has been thrown overboard.[2] Meanwhile, minor concessions made to certain groups of developing countries (like the STABEX arrangement for signatories of the Lome Convention), have been used as pretexts for delaying more meaningful concessions to the third world as a whole.[3] In fact; prices of exports of developing countries have declined as a result of stagflation.

The objective declared by the third world countries in Lima—25 per cent of world production and trade in manufactured goods by the year 2000—has been diluted over time into a dubious programme of "generalized trade liberalization" and relocation of bits and pieces of industrial production through the redeployment of transnationals. But even this toned-down version of the original Lima objective is not being pursued seriously, either by the transnationals themselves or by the developed countries (as evidenced, for example, by the protectionist measures taken by them in respect of textiles).

In the matter of financial transfers, the third world reflected its disappointment with "foreign aid" (it should be recalled that the original target was the transfer of 1 per cent of GNP, that the commmitment to this target was lessened with each passing year, and that the quality of the aid given has been far blow expectation) by taking to the offensive and demanding the

reform of the international monetary system, including the creation of new units for international settlements based on various commodities and the elaboration of rules that would back up development efforts by establishing a "link" between the issue of the new units and the needs of the third world. These proposals were, of course, utopian.

In any case, the third world has run out of steam in all these directions. Increasingly, the central preoccupations have shifted to the divisive issue, for the third world, of debts. In a parallel development, when third world countries find their debt burden too heavy to bear, the IMF and creditor countries get together to impose on the victim of their collusion a tutelage regime reminiscent of the protectorates established in the nineteenth century in the East and in Latin America, that permits them to enforce on the new protectorates polices which routinely and crudely undermine the establishment of their long-term balance-of-payments equilibrium, striking hard in the process particularly at the working class and the least favoured socio-economic groups in a direct mockery of the rhetoric of "basic needs".[4]

As far as the transfer of technology is concerned we know that the proposed code of conduct has been rejected by the North. In other areas, such as the Law of the Sea, the aspirations of the third world have been treated with the greatest disdain.

One could, of course, go on and on listing the "failures" and "disappointments". One could also draw attention to the disturbing frequency, reminiscent of the world of fashions, with which "new", mostly dubious, "themes" are launched, and wonder whether their purpose is not merely to divert attention from the fundamental problems of development and underdevelopment. The parade of such themes as "population", "environment", "zero growth", "basic needs", "employment oriented strategies", "income redistribution", "intermediate and appropriate technologies", "co-operation among developing countries" and "science and technology at the service of development" takes the place of change in the real world of international relations.[5]

What are the factors behind the clearly visible failure? Are those factors purely contingent (the economic crisis)? Are they

traceable to the "tactical errors" of the third world (to its divisions and weaknesses, for example)? Or does this crisis and do these weaknesses reflect the impossibility of self-centred, self-reliant development within the periphery of the contemporary capitalist system?

No doubt the present crisis,[6] which we believe to be essentially a stuctural crisis in the international division of labour, is a persistent one, as witnessed by the failure of short-term "classical" (monetary) or neo-Keynesian "solutions". The crisis, which began in the mid-1960s as a crisis in inter-imperialist relations, following the collapse of the Bretton Woods arrangements, has now reached beyond that particular framework to affect the very foundations of economic life and production systems.

It is not possible to "foresee" how the crisis is going to evolve pregnant as it is with contradictory possibilities. The various struggles triggered by the crisis can lead, in effect, to the break-up of the integrated international market—under the hegemony of the United States—which has been the feature of world system for the last quarter of a century.

The dislocations in the international monetary system; protectionist measures, however, limited; the renewal of "imperial preferences" in opposition to "free-for-all liberalism" (note, for instance, the Lome Convention between Europe and the ACP countries) all go to show that "imperial protection systems" of the type that followed the crisis of the 1930s are not beyond the range of possibility. Needless to say, a new world financial crash could trigger a reaction of the short described above. It only remains to point out that the elements of such a crash seem to exist in the indebtedness of the third world and the Eastern European countries.

It has to be admitted, however, that the immediate reactions of the central capitalist States tend to lead in the opposite direction. The numerous indications of a veritable realignment of the smaller imperialist powers to the dominant imperialism of the United States include the orchestrated attempts to maintain multilateral payments system based effectively on the dollar (notwithstanding progress in European monetary co-ordination, with the European Monetary System becoming no more than the part of a whole that preserves United States hegemony)[7] and Europe's own consciously adopted posture, a posture which, along with

the "stabilization measures", permits the re-establishment of the hegemony of the United States.

Is the labour movement itself not orienting its emphasis on monetary stability, even to the extent of sacrificing employment and working-class solidarity by trading off the interests of "non-incorporated" workers like migrants, young workers and women, who are the greatest victims of unemployment, against those of the "labour aristocracy" afflicted only by inflation?[8] In this not a tendency that reinforces the realignment? It remains, of course, to be seen how lasting the present realignment is going to be—or how politically and economically resilient the world market will prove to be in the face of a drawn-out crisis.

The refusal to make any concessions to the third world must, in any case, be seen in this context.

The *modus operandi* of the relocation under review has to be analysed within this framework and in direct relationship with the question of world movements of capital (and thus of debt).

In actual fact the present period is characterized by a superabundance of readily available capital and this for a variety of reasons, including a slow-down of growth and investment in many sectors (particularly in the non-monopoly sectors) alongside the continuation of high profits in the sector dominated by oligopolies resulting in the excess liquidity position of the transnationals; inflationary expansion of money supplies in the developed countries; and the recycling of petro-funds, etc. This puts the industrial and financial transnationals in the privileged position of commanding the movement of capital on a world scale, defying State policies in the process whenever they deem it necessary. This excess liquidity, which is both a cause and an effect of fluctuations in exchange rates induced by speculation, has largely been channelled to States in the East and South as loans.

It is important at this stage, however, to distinguish between the accumulation of debts by the Eastern European countries and the problem of third-world indebtedness. Loans made to the Eastern European countries—secured by governments but coming from private consorita—do have the undeniable effect of accelerating the industrialization of the borrowing countries and constitute an invitation to reinsert their industry into the

world-wide system of exchange (if only to provide for the servicing of the relevant debt). In contrast, only a small fraction of the debts accumulated in the third world goes to the direct support of industry. In fact, industrial exports from the South have hardly grown at all, with three or four exceptions. The greater proportion of the third world's debts—also to private consortia—goes to finance current imports and to support State organs in difficulty.

What are we to make of this "resurgence of finance capital"? Are we justified in expecting that, in spite of everything this will lead eventually to an accelerated industrial "development" in the third world, on the basis that failure so far to lead to investment in export industries is traceable only to the nature of the present situation? Or are the debts now being accumulated likely to remain an insurmountable obstacle, with debt servicing emerging, as it did in the nineteenth century, as yet another parasitic drain on revenues? Should the latter prove to be the case, the vulnerability of a system founded on a series of untenable equilibria produced by the contradiction between the mobility of capital on the one hand and the effective locking up of this capital in non-liquid assets, on the other hand, would be fully exposed. In that eventuality, the possibility of a financial crash cannot be excluded.

Reflections on International Economic and Political Relations

The situations outlined above provoke serious reflection on the real changes taking place in international economic and political relations.

To begin with, some telling statistics : while total steel production in the developed capitalist States fell by 36 million tons between 1974 and 1978, it rose by the same amount in other regions of the world, thanks mainly to increases in production in the Eastern European countries (USSR, Poland, Romania, Czechoslovakia), as well as China, and only marginally as a result of production in the developing countries, essentially in some of the newly industrializing ones.[9] This is the reality : there are, to be sure, changes in international economic relations; but

these changes are in the relations between the West, the East and China. They are not changes in North-South relations.

Is the development of Eastern Europe and China really marked, as it seems to be, by a readiness on their part for re-integration into the international division of labour? If so under what conditions? Will the transnational corporations that dominate society in the West and the South extend their domination to Eastern Europe and China, as some assert? Is the capitalist system on the way to becoming once again truly universal, after a period in which it was threatened by breakaway socialist experiments?

Advocates of the NIEO are quick to answer the foregoing questions in the affirmative, using it to justify their claim that the construction of an autocentred national economy is incompatible with participation in the international division of labour. The question then is, if in spite of the non-capitalist nature of their economies, the USSR and even China look forward to their integration into world markets, and even to doing business with the transnationals, are the countries of the third world, which lack the advantages of these continental States, in a position to contemplate an absurd autarky which can only condemn them to perpetual stagnation?

Without necssarily denying that integration into the world system is compatible with a strategy of national development, the onus is on the new international economic order to demonstrate this compatibility, since it is for the international division of labour to demonstrate its responsiveness to the national development requirements of the third world.

Between 1970 and 1975 a favourable world situation succeeded in giving the impression that it was, indeed, possible to contemplate a reconciliation between participation in the international division of labour and the pursuit of a national development strategy. But let us not forget the series of political victories won by the third world in those particular years, including the October 1973 war; the achievement of independence by the Portuguese colonies in 1974; the Viet Nam victory in 1975; the intensification of the struggles in Zimbabwe, Namibia and South Africa; the peasant revolt in Ethiopia; and the popular movements in Benin and Madagascar. In southern Europe itself, with mounting instability in Italy and France (where the

left seemed to be on the threshold of power), and in Greece, Portugal and Spain after the collapse of the dictatorships, the system seemed to be threatened. And all within a matter of a few years! The coincidence of all these events with the economic crisis provoked a veritable "panic atmosphere", with the seeming disappearance of United States hegemony and talk of the disintegration of Europe.[10] This was the atmosphere in which the non-aligned group, led by President Boumedienne, defined the theme of a new international economic order.

But did not the theme of a new international economic order fly in the face of historical development experience? Does the historical experience of the advanced capitalist countries not teach us that industrialization and the creation of a national economy have always been accomplished in direct negation of the international division of labour, or more precisely by opting out of it rather than accepting the trap of its so-called and temporary "comparative advantages"? It is precisely for this reason that the construction of a national economy has always involved the State.[11] The nation-State created by the *bourgeoisie* for the *bourgeoisie* in the nineteenth century, be it republican France, Germany or Imperial Japan, was an indispensable instrument in this construction. And if it is true that this was not achieved through autarky it is no less true that external relations were subordinated to the requirements of internal construction. On the contrary, their external relations, often rooted in the exploitation of the periphery, often served quite simply to accelerate the rate of internal accumulation. This was notably so in the case of England and France. For the late developers before the era of imperialism—notably, Germany, Italy, the United States, Japan, Austria-Hungary and Russia—self-centred development invariably involved protectionism, State financing of infrastructures, financial and monetary systems defined by the State, State-sponsored agrarian transformations aimed at the improvement of agriculture and the achievement of self-sufficiency in food, etc. The national developments did not occur within the framework of autarky, of course, but it is worth emphasizing that in these processes external relations were always conditioned to the logic and requirements of internal accumulation and not *vice versa*. It is equally

important to emphasize that all these historical cases, terminating with Japan, preceded imperialism.

The historical experience of the countries that disengaged from the capitalist system is even more instructive. Not only have the USSR and China instituted fundamental changes in their social and economic systems; still more important, they were constrained to do so within a framework of autarky, in part at least since there was no alternative when the capitalist world imposed some type of blockade, Even the smaller Eastern European countries went through a period of effective autarky with the Stalinist plans of the 1950s, building the foundations of their national economic structures in the process. The fact that these same countries now seem to want to be be more closely involved in world-wide exchange networks is, of course, another matter.

Some would see this later development as an admission of failure, citing, in particular, the failure of Soviet agriculture and the failure of the Chinese experiment in "a new type" of industrialization. This is shallow reasoning, ignoring the essential fact that, irrespective of the way one chooses to characterize the nature of production relations in those societies—as socialist or not—they have succeeded in building self-centred national economies. Having succeeded in doing so, these countries do not make their appearance on "the world market" in anything like a position of weakness. Whatever its weaknesses, the USSR does have many cards it can play, including its natural resources, State control of production, the capacity of the political system to continue the relative isolation of the country and, of course, its status as a global super-Power which is by no means an unimportant factor. As fas as China is concerned, there is no doubt that, whatever relations it may conclude with the TNCs, it almost certainly has every intention of retaining control of its external relations.

One line of thought sees the future reconstitution of a unified world market as the logical outcome of these developments. The picture one gets here is of a world-wide historical fresco in which one image yields to another. In the unfolding of this drama an integrated world exchange system established in the nineteenth century under British hegemony (with the pound sterling as king) is threatened at the turn of that century

by the rise of rival imperialisms, manages more or less to hold until 1914, disappears with the "30-year Germano-American war for the succession to the erstwhile British position" (1914—45),[12] to be reconstituted after the Second World War under United States hegemony. What one is witnessing now is the reconstruction of this post-war order after a period in which it was threatened by the rise of Eastern Europe. The pace of events this time round is bound to be more rapid, however, if only because the gap dividing the Eastern European countries and China from the West does not permit them to "go it alone", given particularly the breakdown in their solidarity. We can only add that the position taken by the Eastern European countries *vis-a-vis* the third world clearly demonstrates that the priority of the East lies in the maintenance of multilateral global transactions.[13]

Despite the foregoing, the view that the TNCs are in the process of bringing the "socialist" economies under their domination cannot yet be said to have been verified.

In any case the position of the third world countries is very different from that of the socialist countries. The economies of the third world were designed in the era of imperialism to be what they are—subject to an unequal international division of labour and therefore, dependent.

Is the national liberation movement capable of transforming this dependency relationship and compelling the adjustment of the world system to self-centred national development in the periphery? If that should turn out to be the case one should be able to look back on imperialism as merely a stage—an intermediate stage—in the expansion of capitalism on a world scale and not as the highest stage of capitalism; it will prove to have been the stage that ushered in the transition from a system characterized by the asymmetrical centre-periphery relationships that define it to an homogeneous global system dominated by capitalist relations.[14]

If today the Group of 77 makes its appearance on the international scene in the role of a "trade union demanding economic benefits for its members", it should not be forgotten that the Afro-Asian peoples' political solidarity preceded this organized group for economic self-defence. The solidarity in question, which began as the solidarity of the Arab and Asian

peoples and was subsequently extended to the rest of Africa to become an Afro-Asian movement, bound together in the 1950s and 1960s States that had won their independence and movements still struggling for the independence of their peoples. All these conditions have now changed. Bourgeois nationalism has been the victor in the nation liberation struggle for independence. Imperialism has adjusted to the requirements of a new international class alliance to match a new unequal international division of labour.[15] Are the *bourgeoisies* of the third world capable under these conditions of moving their countries forward? Are they in a position to follow political independence with economic independence? The 1970-1975 situation seemed to promise just that, only to be exposed in subsequent years as a pipe dream. The West has taken hold of itself once again and rediscovered its unity while the third world has retreated in disarray: with its autonomy lost, the third world has become the target of competition between the super-Powers. However, it seems that, contrary to certain beliefs, the national liberation question is far from settled. Such is the pace of events in the present period of world history that, hard on the heels of the NIEO and the exposed impotence of their *bourgeoisies*, popular forces in the third world seem already to have returned to the barricades, as shown by the revolution in Iran.

Alternative Strategies for the Third World

Where does the third world go "from" the NIEO? Is it increasingly going to fall in line with the redeployment programme of the TNCs which, by the end of the present crisis, will end up imposing a new international division of labour? Or will the third world countries finally succeed in making the breakthrough to a new stage of capitalist development by forcing a less unequal role for themselves in the international division of labour and thus maturing from dependent to interdependent parts of the system? Or, again, in the event of the *bourgeoisies* of the third world failing to make this breakthrough, will a new wave of popular revolts bring the peoples of the third world back to the forefront of events?

The conventional wisdom is that the TNCs will ultimately impose their redeployment strategies.

Redeployment is already at work in East Asia (in the Republic of Korea, Hong Kong, Singapore and elsewhere) and on a scale which has borne substantial fruits, as international institutions like the World Bank never tire of proclaiming.

Attempts to put the transnationals in the most favourable light rely heavily on the high growth associated with the strategy of redeployment. The response must continue to be that development cannot be achieved through the relocation here and there of bits and pieces of manufacturing processes in a disorganized manner and in isolation from a nationally integrated industrial structure. Besides, this kind of artificial growth is of necessity extremely uneven in its distribution and introduces for this very reason further major distortions in the subsequent orientation of development. Is Iran not a good enough illustration of the explosive nature of this pattern of development?

In defence of redeployment local apologists for the strategy in East Asia, particularly the Republic of Korea, "helpfully" argue that the task of ensuring that the construction of a coherent national industrial structure from the bits and pieces of manufacturing processes relocated by the monopolies is a State function, subject to master plans which lie with the power of the State to elaborate, and requires step-up-step implementation. In their scenario the State ensures, through its support for the process, that sub-contracting becomes an organized feature of industrial life, for the benefit of small and medium-sized local enterprises; and agraian reform and the "green revolution" open up the prospects for self-sufficiency in food, resulting together in the progressive "encirclement" of the subsidiaries of the TNCs. The question that needs to be asked here is who is financing whom? In other words, is the national economy financing accumulation by the TNCs or is it the other way round? Therein lies the heart and soul of the problem of unequal exchange.[16]

In any case the further development of the current crisis has shown how debatable was the process of industrialization of the so-called "newly industrializing countries" of which some are now in severe crisis. As is well known, the acceleration of this model of industrialization was made possible by huge foreign indebtedness. This in turn was greatly facilitated

by the recycling of the oil surpluses, which reached a peak of $ 100 billion towards the end of the 1970s. But the stagflation eroded these surpluses, which by 1982 will not exceed $30 billion. Oil wealth has been shown to have a far shorter life than was enthusiastically predicted a few years ago; the Middle East oil countries are now being menaced, including militarily! The result is that the surpluses have moved back from the oil producers to the Western developed countries, putting a quick end to the mechanism of the recycling for the benefit of the newly industrializing countries.

Hence now more than ever, after the disillusion of the experience of these countries, we are back to the original problem : the need for a strategy of development, as self-reliant as possible, based on a correct balance between agriculture, basic industries and light industries, reducing depedency on external markets, etc. Such a strategy assumes a much less unequal distribution of income, strong national integration, and a specific type of industrialization, geared to serve, as its first priority, agricultural growth. This is truly the substance and the content of "delinking".

Be that as it may, the leading third world countries have not given up their aims, at least for themselves, even as the chances of a "common front" fighting together to compel a general reform of the international division of labour prove more problematical than originally anticipated.

In the absence of strong collective initiatives at the level of North-South relations, can the countries of the South look forward to the strengthening of their positions by walking on the two legs of "national self-reliance" and "collective self-reliance"? So far there has been little to show, besides conferences and speeches (an example being the Buenos Aires Conference in 1978 on technical co-operation among developing countries) and a succession of "projects" like the third world Bank envisaged to compensate for the failure of the third world to make any impact on the reform of the international monetary system, or the proposal to set up joint facilities for technological development. The question, however, is whether these projects are by their very nature utopian. There is the further question whether the rhetoric of "delinking", meaning the loosening of North-South relations in favour of an intensification of South-South

relations, is just idle talk.[17] Is the energy spent on proposing "good" South-South co-operative programmes (in contradistinction to "bad" ones ostensibly proposed out of ignorance) not better devoted to finding out why the "bad" programmes are bad?

As a follow-up to the revealed internal weaknesses of third-world societies, what can the third world really do besides talking?

The emphasis on the irresistible economic power of present day TNCs has the unfortunate tendency of diverting attention from the weaknesses of the ruling classes of the third world. The real issue is not that of the power of the TNCs but that of the weakness of the *bourgeoisies* of the third world as compared to the ruling classes of the East.

From this latter perspective it obviously does not suffice to label the thrust of current developments in the East as well as the South as "capitalistic" and their respective governing classes as "*bourgeois*" : there is all the difference in the world between the "national *bourgeoisie*" of the East (if this ruling class has to be characterized as *bourgeois*) and "*neo-comprador*" *bourgeoisies* of the South.

The difference lies in the historical origins of the two sets of *bourgeoisies*. In the East, be it the Soviet Union or China, the *bourgeoisie* is a new class, the product of a socialist revolution that was eventually distorted. The revolution in those countries was marked by a popular, anti-capitalist, alliance of the working class, exploited peasants and various elements of the *petite bourgeosie*. It was within this alliance that the new class rose in opposition to the masses. But the alliance made the construction of their national economies possible. The peasent revolution triggered by it must be given the credit, among other things, for providing the agricultural basis for industrialization. There has been no comparable historic alliance in the South. Its new *bourgeoisie* does not emerge from a peasant and socialist revolution. It is a direct product of class formation in the previous phase of imperialism. The failure of third world agriculture to develop along the lines necessary to sustain third world industrialization, a failure often defined as the "crisis of food and agriculture,"[18] reflects the absence of a peasant revolution. Under these conditions, the *bourgeosie* is incapable

building a national economy : it can only thrive on growth from participation in the imperialist system.

With the class content of the third world States no longer a secret, the true nature of their strategy becomes clearer. It is not a strategy for building of national economies but a strategy of insertion into the international division of labour. Under these conditions the easy way for some countries to improve their position is often to sacrifice the interest of others.

The ripening of political and economic contradictions within the third world (witness developments in the Horn of Africa, Western Sahara, Central Africa, the Indian sub-continent, Indochina and elsewhere) are not, in our view, a sign of the revival of ancient and pre-capitalist "nationalisms" freed by the recovery of independence. Even when, as sometimes happens, recourse is made to old antagonisms, it is to exploit them in furtherance of the strategies of established emergent dependent *bourgeoisies* aspiring to improve their position in the world system at the expense of the weak. Nor is the recourse to external Powers a pure accident, for the intervention of these Powers is needed to make up for the weaknesses of a strategy which cannot but be weak because it is not rooted in the profound aspirations of the popular masses but can, at best only associate them in the pursuit of limited objectives consistent with the path chosen by the exploiting classes. Each passing day carries with it more evidence that this strategy has the effect of turning the third world into fair game for the rival super-Powers.

When the "crisis" of the new international economic order is perceived within the context of the thrusts of the world system it reveals the two dimensional and contradictory nature of ongoing transformations, transformations which can be analysed as a stage in the developments of capitalism on a world scale, but also as its crisis stage and as a stage of "transition to socialism".

If the developing situation is analysed as the expression of the development of capitalism on a world scale, one is led to the conclusion that the emerging poles are the communist countries (Eastern Europe, USSR, China, etc.) and not the countries of the third world. Having already accomplished the construction of their national economies, a necessary condition, they and

only they are in a position to participate in the international division of labour on an equal footing.

But this mode of analysis addresses only one aspect of the situation. Precisely because the situation has the other dimension to it, the evolution of the system is marked by the acute symptoms of crisis in the capitalist relations of production, pointing to the objective necessity for new, truly socialist relations.[19]

It is no accident, in fact, that the prospective centres owe their status to socialist revolutions. What a paradox that the growth of capitalism is now only really possible on the basis of the abortion of socialism !

Nor is it any more of an accident that, prior to the initiation, and subsequent betrayal, of socialism, capitalist expansion proceeded through peripherization. The challenge of national liberation thus remains very much on the agenda, even if the specific ties have naturally changed, as they have always done in the past. A new wave of popular struggles is thus to be expected, the rise of populism in the third world being a pointer in that direction. Not for the first time the peoples of the third world may well lead the processes of world transformation.

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7

Back to Basics : Theory for the Rhetoric in the North-South Round

LANCE TAYLOR

The hurricane's eye hovering over the North-South conflict is about to move away. The kindly Brandt Report heralded its arrival in early 1980;[1] by late 1981 the winds were building up around Cancun. As the storm rises, it is wise to contemplate the South's failure in the previous round. Northern negotiators in 1980 could justifiably draw a sigh of relief—they had just repulsed Southern claim to stabilize raw material prices, provide debt relief, leash the multinationals, reduce trade barriers, transfer technology, and effect sundry other modifications in the world balance of economic power. A New International Economic Order (NIEO) had been trumpeted by the South a decade earlier; in the final analysis, the old order was hardly touched.

What went wrong with the NIEO proposals—were they just repulsed by a bit of Northern stonewalling, or was the whole design fundamentally flawed? If, as seems likely, there were significant defects in the theory underlying NIEO, how can they be changed? Finally, what strategies or co-operation and conflict would a more realistic view of the difficulties faced by the very heterogenous economies of the 'South' imply ? The best place to

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begin the reassessment is with the basic linkages in the international economy, those of commodity trade.

To a first approximation (modified later) the iron law of trade for poor countries is that they are hewers of raw materials and drawers of oil for the industrialized world. The trade patterns imposed by colonialism and the South's own lack of technical mastery when it was integrated into the world system under Pax Britanica last century persist—most Southern nations export commodities whose sales abroad will at best expand as rapidly as the North's aggregate demand.[2] Growth in industrialized countries is determined by their own interactive policies, unaffected by any Southern action except the occasional OPEC shock. Thus, the South finds its export balance both out of its own control and structured to lag macro-economic disturbances in the rest of the world. Even productivity gains in export sectors do Southern economies no good—because their sales volume is determined by the level of Northern economic activity, cost-saving improvements just get transformed into a lower price. This perverse behavior of the export terms of trade lies at the heart of NIEO reasoning; its misinterpretation was the major intellectual error underlying the ill-fated 1974 proposals of the United Nations Conference on Trade and Development (UNCTAD) for commodity price control.

One last implication of the South's export dependence regards its own rate of growth. The required investment can be financed by saving from three main sources—incomes generated in non-export sectors, profits in exports, and capital flows from the North and OPEC which by accounting necessity must be absorbed in the form of a deficit on commodity trade.[3] Since in most Southern countries saving from sectors not linked to trade (mainly services and some parts of industry and agriculture) will not expand rapidly, the success of their investment programmes is determined from abroad. That is, export profits depend on output policy in the North and (as will be shown later) each poor country's trade deficit is largely set by Northern hands.

The view of international trade just sketched has a distinguished history —in one variant or another it represents the vision of several economists whose writings in the 1950s laid the conceptual foundations for the NIEO proposals and UNCTAD. For present purposes it suffices to consider the

particular formulations of Raul Prebisch (the first head of UNCTAD), Ragnar Nurkse, and the still very active Princeton economist, W. A. Lewis.

Prebisch stressed the negative effect of productivity increases on the South's terms of trade that was mentioned earlier, and went on to hint that the long-term outcome would be a steady decline in the region's purchasing power and prospects for growth. The empirical evidence suggests that the master pushed his theory too far. Over the century preceding 1950 the terms of trade faced by raw material exporting economies and/or the countries and colonies that now make up the Third World were on average stable (but fluctuated greatly from time to time). Since 1950, the South's terms of trade may have declined, though how much this apparent tendency was perturbed by the commodity booms of the Korean War and the mid-1970s remains unclear.[4]

There are enough other things going on in the world economy that affect the terms of trade to make a direct test of Prebisch's hypothesis against the 'facts' (or roughly constructed numerical approximations thereof) largely irrelevant. His logic was sound, though he overestimated the importance of his particular chain of economic links. What does matter is his recognition that the South was dealt a bad hand in the trading game, bad enough so that tinkering in commodity markets is not going to affect its long-run fate. Misperception of this idea led Prebisch's successors at UNCTAD to propose their integrated commodity scheme, a resounding failure that had much to do with dragging other, more sensible NIEO proposals down.

The story goes as follows. In the early 1970s UNCTAD econometricians were working on models of price-stabilizing commodity buffer stocks. Such agencies are supposed to enter commodity markets as buyers when supplies are high and prices low, and as sellers when markets are tight. With enough resources (both money and physical inventories of the commodity in question), a buffer might help stabilize price when market responses are calm.[5] Moreover, a system of linked buffer stocks could presumably save money if fluctuations in the markets for its constituent commodities were not directly related. Buying cheap in one market could be financed by selling

dear in another, and everyone would be better off from more stable prices all around.

The UNCTAD technicians computed that a system of stocks valued at $6 billion (in 1974 prices) could give perceptible market stabilization; later and fancier statistical work put the figure nearer $10 billion. But the main point is that this money was only supposed to buy a reduction in price fluctuations? The *level* of a commodity's terms of trade would not be affected, and Prebisch's long-term dilemma would not be addressed at all. Of course, Northern negotiators feared that the hidden agenda for UNCTAD was to set up commodity cartels on the basis of the buffer stocks. OPEC was riding high at the time, and prospects for cartels in copper, bauxite, coffee and even highly competitive staples such as sugar glittered in its reflected light. Market realities soon put them back into the shadows. UNCTAD left pushing a $6 billion Rube Goldberg scheme, thinly disguising a quest for market dominance that Prebisch had already shown could not work. Small wonder that after 5 years of negotiation, the best UNCTAD could get was 400 million 1979 dollars in advanced country pledges' (not monetary commitments) to apply as a down payment on raising capital for its $6 billion holy grail.

Reflection on this fiasco suggests that details of economic structure narrowly limit the means by which poor countries might improve their lot. General problems already mentioned are lack of buoyant export markets and dependence on a trade deficit to generate savings supply. To these might be added the fact that almost all countries are dependent on imports to supply key capital goods. Jet airliners are a frivolous example—how many countries are in a position to manufacture those? The same point applies to a whole range of machinery and equipment. Its implication is that a closed or 'autarkic' development strategy is impossible for most economies of the world.[6] Besides these universal aspects of dependence, specific groups of countries are hampered by additional problems as well. Some examples are as follows.

Mineral (including petroleum) exporters. Here, the problem is that a mineral extraction sector employs few people and generates little internal demand. At the same time, the foreign exchange it provides may be ample. The trick is to turn the

dollars into internal economic growth and diversification. Attempts to increase domestic capacity *via* investment will typically put pressure on industries producing goods that cannot be imported, the prime example being construction. The price of construction services (or any other non-tradable good) will rise relative to those for imports and exports. Resources will be drawn away from production of tradables, and the economy will find itself specialized in its primary export and non-tradables. At the same time, the Central Bank will find it difficult to prevent transformation of at least some foreign exchange into domestic currency, so that inflationary pressures will build up unless free imports are allowed. The outcome (the Venezuelan disease) will be a highly unbalanced economy, devoid of agricultural and industrial production capacity and know-how. When the flow of dollars from mineral extraction abates, there are poor prospects for future growth.[7]

Food exporters. Few Third World economies export food (a major change from the situation before World War II), although many devote land to exports which could otherwise support grain production. In either case, an increase in export prices will enrich the rural sector. In poor countries, most of the initial rise in income will be devoted to food purchases. Even if food production goes up along with prices, the surplus available for export may stagnate or fall. Unless unpopular internal income redistribution policies are pursued, a country with these problems will benefit little in its balance of payments from improved terms of trade.[8]

Countries with a lagging agricultural sector. Even if foreign trade difficulties are not relevant, agricultural performance strongly constrains growth prospects in poor countries. For example, an increase in investment demand should in principle generate additional employment and growth. However, a large share of the wage payments received by newly employed workers will be directed toward food. If agricultural supply lags, the outcome will be rapid food price increases and frustration of the initial impetus toward economic expansion. After a time, the food price pressure will lead to rising wages and cost-push inflation. Until growth targets are curtailed or food output goes up, stagnation and inflation together will bedevil a country of this kind.[9]

Countries with unequal income distributions. The analysis here hinges around the notion that if income is highly concentrated, there is likely to be a low level of aggregate demand. On the other hand, income redistribution toward workers and the poor in general would lead to much higher demand levels for wage goods. Capacity utilization would rise in those industries, investment would be stimulated, and unless other barriers were to arise a higher overall growth rate could result. The catch is that the profit rate (or even absolute profits) may fall. Capitalist resistance is at least a major reason why growth gains from income redistribution are infrequently observed.[10]

Oil importers. Oil shocks affect rich and poor countries alike. The price of a key raw material goes up, and sooner or later the outcome will be an increase in final output prices. If wage are more or less fixed in money terms, the real purchasing power of labour incomes will fall. Aggregate demand and capacity utilization will decline; investment in consequence may be cut back, leading to slower growth. The outcome is again stagflation, which standard fiscal and monetary policies will be powerless to offset.[11]

Most poor countries fall into one or more of the foregoing cages. How can they break out? In recent years, liberal commentators have stressed export-led growth. If an economy learns to sell products for which demand in the North grows fast, it should have no problems in maintaining both imports and aggregate demand. Moreover, access to international capital markets will be easy, so foreign saving will be in ample supply to support high levels of investment growth. Roughly, this is the strategy that has been followed by the so-called New Industrializing Countries (NICs). The leading lights are the economists' Gang of Four—South Korea, Taiwan, Hong Kong and Singapur—plus others such as Mexico and Brazil. In effect, all these economies give their exporters large incentives to perform, and seem to have reaped rapid GNP growth rates (upwards of 8%/ year) therefrom. They are the paradigm for most North Atlantic economists who dispense conventional wisdom and policy advice to the Third World.[12]

No doubt, exports can be an engine of growth, but the historical and geographical uniqueness of the NICs raises doubts as to how universally it can be applied. Singapur and

Hong Kong are city-states that catapulted entrepot trade into prosperous manufacturing enterprise. The model has been around since the Phoenicians, but has never spread? South Korea and Taiwan were given land reform by the Japanese and Americans, so that their agricultural bottlenecks were straightened out. Moreover, they benefited from lavish foreign aid and preferential access to their mentor countries' markets during their initial growth push in the 1960s. To date, they maintain more than usually constricted political regimes, in contrast to the more open politics but extremly unequal distributions of income in Mexico and Brazil. These latter two large countries have based their export success on manufacturings sectors that were highly protected for many years, as well as on abundant natural resources.

More countries may become NICs, but the foregoing review suggests that they may be peculiar in various ways. Also, along Prebisch lines, not all countries in the South can have exports to the North which grow more rapidly than the market as a whole is going to expand. The NIC club is necessarily exclusive; the more countries that enter, the more difficult it is for those left behind to join.

Faced with such prospects, most nations in the Third World may have to opt for internally oriented, or as Nurkse put it, 'balanced' growth strategies.[13] In terms of our basic model, countries must strive for both production of their own capital goods and generation of their own internal supplies of saving. If followed through, this process may prove painful for presently dominant classes in several ways. Small-scale agriculture and non-luxury consumer goods production are less dependent on imported machines than are processes making goods favoured by large landowners and the urban bourgeoisie; a substantial income redistribution may be implied. Mineral production and other cheap sources of foreign exchange may be curtailed; the loss would show up rapidly in reductions in the range and quality of consumer imports. A substantial increase in food production can in some cases be achieved by frankly capitalist methods (as the 'Green Revolution') but land reform provides an alternative route. And finally, the whole balanced growth strategy is always in danger of being suffocated by small internal markets and the lack of efficiency that often leads carefully

nurtured infant industries never to grow up. South-South trade and joint Southern efforts to open Northern markets could help alleviate such problems. Discussion of the practicality of these options is best preceded by analysis of another set of issues—how money and financial institutions constrain Southern independence in international trade.

To appreciate the world financial market, one must begin with the key currency country at the top. For most of the time since the 17th century, a single country with it financial centre has dominated the bankers' world. Generation of a payment surplus (fed by interest income) to finance other countries' deficits, massive ability to export capital goods, and possession of the financial centre were defining characteristics of the dominant economies during the eras of Pax Britanica (from the Congress of Vienna until the period between the World Wars) and Pax Americana (which lasted roughly until the Nixon shocks of 1971). By contrast, requiring a trade deficit to provide saving, lacking capacity to produce sophisticated structures and machines, and possession of a weak currency are key indices of underdevelopment, as we have already seen. The position of the poor countries did not change during the 1970s in this regard. The interesting development was dissipation of the regalia of economic fame.

Roughly speaking, the situation today is that the financial system still centres in New York and London, but competitors ranging from Zurich to offshore operations specializing in fast financial intermediation and tax avoidance manipulate an ever growing trade. Capital goods production is dispersed all the way from Boeing in Seattle to sweatshop operations in the NICs. The trade surplus is concentrated on the Western shore of the Persian Gulf, though Japan and (decreasingly) West Germany still assume the finance capital exporter's role. Despite any more or less conspiratorial interpretation one may place on the Saudi—American special relationship, the first oil shock loosened the international financial game. Improbably, Third World countries took some advantage of the situation, as we will see later.

For the non-oil-exporting countries of the South as the passive participants, the main question is how the North may react to what promises to be a long succession of oil shocks. The

North's (more specifically the Americans') options are basically two—accept the loss in real purchasing power that an oil price increase entails and run a recession, or else allow price increases (ratified by money creation) to erode the real price of oil away? The choice here is very delicate since all internal political factions are involved. As Michal Kalecki suggested long ago, Northern capitalists may welcome a degree of recession for the discipline it brings to the labour market, but fear the social disruptive effects of inflation like a plague.[14] Northern workers lose much in recession, while Persian Gulf rentiers dislike the progressive reduction in value of their dollar-denominated bonds that inflation brings.

The measure of success for the inflationary gambit is the interest rate for international loans. In the economists' 'long run' the real interest rate (defined as the market rate less the rate of inflation) ought to equal the average rate of profit on capital investment world-wide). In practice, as Keynes observed, the long run arrives only when we are all dead; meanwhile the real interest rate can fluctuate and even stay negative for extended periods of time.

By and large, the North ran a fast enough inflation to keep the real interest rate low or negative for most of the 1970s (exact estimates inevitably vary, depending on choice of price index). At the same time, recession and half-hearted conservation measures reduced oil imports and the North's overall trade deficit to less than OPEC's surplus on current account. Since the sum of trade deficits and surpluses world-wide must be zero, the non-OPEC South had to run an overall deficit to counter the oil exporters' 'gains'.

Why the quotation marks on 'gains'? One reason, already noted, is that mineral-rich countries face a difficult task in translating their foreign exchange wealth into diversified internal development. In their different ways, Venezuela and the Shah's Iran turn this observation into a cliche. More fundamentally, a trade deficit is in principle a gain for a country able to transform it to more rapid investment and growth. One defence of the current system, popular on the Boston-Washington axis these Reagan months is that the international capital flows triggered by OPEC surpluses allowed the NICs to do their thing. Access to virtually limitless loans at negative real interest rates

is just the shot in the arm that peripheral capitalism is asserted to need.

Regrettably, this particular line of reasoning is pocked with flaws. Bankers are not unlike sheep crossing a highway; at times they follow the leader in offering loans beyond all prudent sence. The financial crises induced by excessive lending to Turkey, Peru and Indonesia during the late 1970s are cases in point. (This is not to say that authorities in these and other countries should not have put their own finances in order, but that international banks cheered them down the primrose path). On the other side of the Eurocurrency trade, no loans at all may be available to countries that are not 'credit-worthy' by New York and London consensus. A system that allocates large but ultimately finite volumes of funds to 170 sovereign nations at negative lending rates cannot be cleared by price. Arbitrary (that is, politically and ideologically based) grants of the borrowing privilege must finally be made.[15]

With actual institutions, international loans (and borrowers' trade deficits) are allocated in two ways. The normal channel begins with the money centre banks, recipients of OPEC deposits in the first instance. Each bank lends according to its own market knowledge, previous commitments, home government pressures, and so on. But especially for poor countries another agency sets standards of creditworthiness and (at times) organizes packages of loans. This agency is the International Monetary Fund (IMF). It has replaced commodity schemes as the focus of Third World attention on the international economic scene.[16]

Along with its next-door Washington neighbour, the World Bank, the IMF was conceived at the 1944 conference in Bretton Woods, New Hampshire, that set the rules governing international finance until the Nixon shocks. The Fund was charged with regulating monetary relationships among nations with the understanding that a country would alter its exchange rate only when its balance of payments fell into 'fundamental disequilibrium'. In practice, this diagnosis came to be associated with a large deficit, and the main remedy was devaluation of the local currency (leading to an increase in the relative domestic prices of tradable goods). Though Keynes and others at Bretton Woods urged that countries with payments surpluses be forced

to adjust (presumably by appreciating their exchange rates or increasing their lending abroad), political reality and bankers' conventional wisdom left surplus economies well free of the Fund's writ.

Countries that belong to the Fund pay in quotas in gold or foreign exchange. When faced with payments difficulties, a country can draw on 'tranches' of an amount up to six times its quota, as well as gain access to other pots of foreign exchange that the IMF collects from time to time (*e.g.*, an 'oil facility' after the first shock, a 'trust fund' for poor borrowers, and so on). The trick is that a country only gets these resources subject to steadily increasing 'conditionality' or control over its economic policy decisions by the Fund.

Sooner or later after a country gets in balance-of-payments difficulties as perceived by the world's lenders, a mission from the IMF will arrive. The visit is consummated when the Finance Minister signs a 'letter of intent' to change his policy mix. The reward is the right to draw on higher tranches of the country's quota, plus other Fund facilities as may apply. The amount of the IMF loan is usually only a few hundred million dollars. More important than the money is the seal of approval it brings. Armed with the letter of intent (and sometimes quiet knowledge of phone calls from the IMF country economist to New York), the Finance Minister usually finds that he can borrow what he needs.

Between nations, the purpose of these exercises (letters of intent signed each year can be counted in the tens) is to allocate payments deficits across the world. Though diffuse and subtle, political criteria clearly play a role in determining which countries are offered Fund assistance at conditions they can accept, and which are not. Detailed case studies are the only means to obtain understanding here.[17]

For present purposes, the more interesting question is what happens within an economy after a Fund visit, or what policy changes does conditionality impose? The menu is selected from a limited number of items available in a macro-economic model that the IMF has retained for many years.[18] The key assumptions are that the level of output is fixed by 'full employment' of resources, while the price level will follow in the short run from costs as determined by the wage level and exchange

rate. By an accounting equation that describes the balance sheet of the banking system, any rise in the money supply (the banks' main liability item) must be balanced by increases in loans to the government or private firms, or else by higher foreign exchange reserves (banks' loans and foreign exchange holdings are their principal assets). The final assumption is that demand for money follows from the 'needs of trade' as predicted by the multiplication : value of trade=(price level)×(level of output).

To apply the model, make projections of output and the price level; then you have money demand. Put a limit on government borrowing from the banking system, and assume that private-sector borrowing follows a stable relationship with GNP. From the balance sheet of the banking system, the change in foreign reserves 'must' be determined as a residual item. Or, in other words, if government borrowing from the banking system is restricted, then the balance of payments will improve. Just to help matters along, a devaluation is usually prescribed. The result is that domestic import and export prices go up; presumably exports will respond by rising, while imports will fall. Finally, restriction of wage levels will help hold traded goods price inflation down. A corollary will be a shift in the income distribution toward profits, stimulating investment and leading to more growth in the medium run.

This package sounds coherent, and for the balance of payments it often succeeds. The problem is that the Fund model has the mechanisms wrong. The money crunch that results from restricting government spending drives up interest rates, and constricts investment demand. Moreover, in poor countries with underdeveloped infrastructure for both commercial activities and finance, firms have large working capital commitments. When interest rates rise, the costs of financing this working capital increase, and will be passed along in prices. The consequences are lower output levels (from lower investment demand) and inflation—monetary contraction is stagflationary in the short run. This aspect of how real economies function is routinely ruled out by the Fund's (and all monetarists) full-employment assumption.

On the side of devaluation, the price increases that it causes reduce the real purchasing power of wages and lead to

lower consumption demand. This effect is multiplied if imports initially exceed exports, the usual case. The gain of purchasing power enjoyed by exporters from devaluation is more than offset by the loss of importers and further demand contraction ensues. The fall in economic activity that comes from interest rate increases and devaluation leads to lower imports and an improved trade balance—these are the channels *via* which the Fund package 'works'. At the same time, investment and growth prospects for the future decline, while the income distribution shifts against wages. There is even inflation until higher foreign exchange and interest rate costs work themselves through the system. Medium-term wage repression becomes necessary to round out the low inflation and surplus balance-of-payments positions that are the hallmarks of financial grace.[19]

The bind that these policies impose upon progressive Third World governments becomes strikingly clear. Income redistribution with adequate growth requires foreign resources; both growth and distribution are the immediate casualties when an increasing payments deficit leads a country to run foul of the Fund. Even non-progressive governments pursuing expansionist policies face a similar fate. The only countries escaping IMF tutelage are slow growers, those who can pursue largely autarkic development strategies and the NICs. As darlings of the capital markets NICs paradoxically transform export expansion into widening payments deficits since their sales abroad make them good credit risks. The strategy has led to external hiccups (Brazil had trouble borrowing for most of 1980, but re-entered Euro-currency markets with a flourish after good exports in early 1981) and at least one internal crash (Iran). In any case, the NIC option may soon be foreclosed. Trade preferences in industrial country markets for the existing crew are being wound up, and it is hard to imagine that they will be extended much more widely abroad.

The slow growing and/or autarkic countries follow balanced growth strategies of the kind described earlier. Their policy options would be wider if more foreign resources came their way. Exerting pressure for more dollars is the one tactic upon which almost all poor countries agree. Their chosen approach is to call for large increases in their IMF quotas (which bring

voting rights) and overall resources of the Fund. More foreign exchange available to the Fund would permit its members bigger deficits, while greater Third World voting power in the Board of Governors might induce the staff to recommend policies involving less monetary and exchange rate overkill.

Were world financial markets better disciplined, countries espousing such heretical nations might soon be whipped into line. In fact, a more liberal Fund may possibly arise. The fair omen is a recent large increase in the Saudi Arabian quota, in response to a contribution of at least $10 billion. The foul sign is American intransigence regarding Fund packages with light conditionality. The hope must be that there will be enough liquidity in the IMF to convince diehard staffers and Governors that harsh conditionality has ceased to make sense. Paradoxically, world recession may help on the front. But more important is the fact that the diehards are losing their theoretical strength—the intellectual attack by Third World economists on the Fund is beginning to have its effects. In the best of worlds, poor countries would not be squeezed from financial markets in the 1980s, precisely because they could have recourse to a born-again IMF.

Whether such hopes are realized depends very much on the abilities of Southern negotiators, as well as the economists who can keep up an intellectual critique. It also bears recalling that the North carries its monetary weapon in reserve. The key currency countries can always create enough money to make the real gains from Third World or OPEC receipt of dollar-denominated IMF loans or oil sales arbitrarily small. Pumping up inflation is not politically costless for the North. The point is just that power over hard currency issue can counter growing Southern power in the management of the Fund.[20]

Similar ambiguities plague Southern efforts to improve their lot in other aspects of the world system. In commodity trade, for example, the rules regarding tariff policy are set by another agency left over from the post-World War II international design, the General Agreement on Tariffs and Trade (or GATT). The spirit of the GATT is that tariff barriers should be lowered and that countries should not discriminate against each other in attempting to pursue beggar-my-neighbour strategies in trade. The practice has been for the North grudgingly to allow the

South some freedom to subsidize non-traditional exports and also to grant discriminatory trade preferences to favoured clients (*e.g.*, from the US to East Asia and South America and from the Common Market to ex-colonies). But the trade barriers lowered under these generalized systems of preference can always be raised again; indeed the free-traders in The Reagan administration seem determined to do just that. The South has little power to influence the domestic political considerations *via* which such decisions of the transnational companies whose multi-country operations completely bypass the concepts of national sovereignty upon which the GATT rules are based.[21] Of course the transnationals keep both their headquarters and their basic political allegiance squarely in the North.

This line of argument rapidly becomes tedious; other examples of inherently inferior Southern bargaining positions can easily be found. One conclusion is that Third World countries should train large corps of lawyers; one criticism of UNCTAD's present management is that the only thing it knows how to do is talk. Yet the major lesson from the South's possible success in changing the course of the IMF is that the economists' critique had to be combined with financial market loosening as well as the Saudis' economic clout.

We come full circle to Nurkse's vision with which we began. Until Southern countries gain control of their own economic destinies, *via* production of capital goods and income-elastic exports, their dependent position is certain to persist. Small gains are always feasible at the negotiating table, but the experience of the 1970s shows that major realignments in the international system are not going to be talked into effect. What *is* feasible for most countries is an inward-looking balanced growth strategy, delinked from Northern pressures to the maximum possible extent. South-South trade financed by a rejuvenated IMF and relaxation of NIC restrictions on imports from their poorer neighbours would help greatly toward these ends. But in the final analysis each country has to go it alone, to make its own way out of the structural cage in which it now finds itself. The NIEO failures showed how hightly Southern countries are bound. The successes will come only when they break their constraints.

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1. The official title is *North-South : A Program for Survival* (Cambridge, Massachusetts : MIT Press, 1980). Willy Brandt chaired the responsible Commission on International Development Issues, with funding from various sources.
2. In fact, as Lewis pointed out in his Nobel Prize lecture in 1979, the relevant elasticity is about 0 8— a 1% increase in the growth rate of OECD economies will increase Southern export growth by about 0.8%. W. A. Lewis, 'The slowing down of the engine of growth', *American Economic Review*, Vol. 70 (1980), pp. 555-564.
3. This theorem in accounting states that the only way one country can receive resources from another is by selling less than it buys. Under present financial market arrangements, the recipient country becomes indebted to its benefactor, and there is a corresponding capital flow. The monetary units in terms of which this flow is measured turn out to be very important, as we will see later. The key point is that the North as a whole can pay its debts to OPEC by creating dollars, marks or yen while the South with its assorted soft currencies can only accommodate capital inflows by building up dollar-denominated debt.
4. For a succinct review of the numbers and their interpretation, see David Evans, 'International commodity policy : UNCTAD and NIEO in search of a rationale', *World Development*, Vol. 7 (1979), pp. 259-279. The best statement of Prebisch's own views is his paper 'Commercial policy in the under-developed countries', *American Economic Review*, Vol. 49 (1969), pp. 251-273. A sympathetic and widely quoted formalization comes from Edmar Bacha, 'An interpretation of unequal exchange from Prebisch—Singer to Emmanúel', *Journal of Development Economics*, Vol. 5 (1978), pp. 319-329.
5. How much good a buffer stock could do when markets are chaotic and buyers panicky is another question. For example, econometric simulations show that a reserve of about 20 million tons would be enough to stabilize world wheat markets in 'most' circumstances. But market commentators suggested that stores three or more times this large would have been necessary to damp the price increases during the mid-1970s food crisis. A buffer stock's resources are likely to prove too small just when its services are really required.
6. The possible exceptions are very large countries rich in natural resources. The very size of their economies means that they can support substantial markets in virtually all commodities, while natural resource wealth obviates dependence on raw material imports. Of the currently well-off nations, only the US and the Soviet Union were able to follow largely autarkic growth trajectories, and even they depended on raw material exports at crucial

junctures. In present circumstances, Brazil, Mexico, India, China and Indonesia might be in a position to follow autarkic strategies, though all lack some natural resources.

7. Difficulties faced by mineral exporters have flickered in and out of professional economists' attention for years. They are in at the moment, though the best analysis is as yet unpublished. A good descriptive paper comes from the World Bank's Development Research Centre ; Alan Gelb, 'Capital importing oil-exporters : adjustment issues and policy choice'. From the same Centre on theory see Sweder van Wijnbergen, 'Inflation, employment and the Dutch disease in oil-exporting countries'; as well as an MIT dissertation essay by Youssef Boutros-Ghali, 'Single export systems and the dependent economy model' (1981).
8. This problem has long been noted by specialists on Argentina, which exports wheat and beef, its wage goods. It has recently been stressed by Graciela Chichilnisky, an Argentinian teaching in England. For an abbreviated presentation of her model, see G. Chichilnisky and L. Taylor, 'Agriculture and the rest of the economy ; macro connections and policy restraints', *American Journal of Agricultural Economics*, Vol. 26 (1980), pp. 303-309.
9. This inflationary dilemma has long been stressed by Latin American writers. The canonical paper is by Prebisch's colleague, Osvaldo Sunkel, Inflation in Chile ; an unorthodox approach,' *International Economic Papers*, No. 10 (1960), For more formalized versions, see Chichilnisky and Taylor, *op. cit.* (1980); and Eliana A. Cardoso, 'Food supply and inflation', *Journal of Development Economics*, Vol. 8 (1981), pp. 269-284.
10. This model is often proposed by Indian economists as an explanation of the relatively slow growth in their economy. See, for example, Deepak Nayyar, 'Industrial development in India : some reflections on growth and stagnation', *Economic and Political Weekly* (Bombay), Special Number (August 1978). An analytical version appears in the unpublished paper by Amitava Dutt at MIT, 'Stagnation, income distribution and monopoly power' (1981).
11. This chain of consequences is by now very familiar. A recent, elegant restatement focused on poor countries is given by Sweder van Wijnbergen *Oil Price Shocks and the Current Account* (World Bank, 1981).
12. The literature is enormous, at times ecstatic. For a clear-headed presentation by advocates, see Jagdish Bhagwati and T. N. Srinivasan, 'Trade policy and development', in R. Dornbusch and J. A. Frenkel (eds), *International Economic Policy : Theory and Evidence* (Baltimore : Johns Hopkins University Press : 1979).
13. Ragnar Nurkse, *Patterns of Trade and Development* (Stockholm : Almquist & Wicksell, 1959).
14. Michal Kalecki, 'Political aspects of full employment'; from his

Selected Essays on the Dynamics of the Capitalist Economy (London : Cambridge University Press, 1971) : reprinted from *Political Quarterly* (1943).

15. A parallel situation is that of fishermen in a large sea. Each small boat's captain does not realize that his catch reduces the stock available for all the rest. Unless each fisherman's take is somehow limited, the final outcome may be enough fishermen to make the fishery disappear. In financial markets, the OPEC surplus will persist but late or ill-favoured claimants for loans may be forced to the wall.
16. The following brief discussion of the role of the IMF can be supplemented by the excellent review paper by Edmar L. Bacha and Carlos F. Diaz-Alejandro, 'Financial markets : a view from the semi-periphery', Discussion Paper No. 367, Economic Growth Center, Yale University (January 1981).
17. Think of Jamaica's return to financial respectability and the Fund's good graces after the election of Edward Seaga last fall; loans from Venezuela and socialist good wishes had not been enough to keep the more radical Michael Manley afloat. For a critical review of IMF actions in this and other cases, see Issue 2 for 1980 of *Development Dialogue*, published by the Dag Hammarskjold Foundation, Uppsala, Sweden. The issue presents the proceedings of a conference of moderately leftist economists in Tanzania, which generated an Arusha Initiative for reconstructing the Fund, as well as most other aspects of the world financial system. Several more orthodox country analyses appear in William R. Cline and Sydney Weintraub (eds), *Economic Stabilization in Developing Countries* (Washington, D. C. : Brookings Institution, 1981), which reports the proceedings of a conference among Washington policy-makers and centrist academics sponsored by the US Department of State.
18. The structure of the Fund model was set out in print by J. J. Polak, the institution's chief theorist, almost 25 years ago : 'Monetary analysis of income formation and payments problems,' *IMF Staff Papers*, Vol. 6 (1957), pp. 1-50. The practice is described in a speech made in 1967 by the head of the IMF Latin American section, E. Walter Robichek, 'Financial programming exercises of the International Monetary Fund in Latin America'. This presentation is a key text used by the IMF Institute, the Fund's educational wing.
19. How the IMF medicine really works has been known to practising economists in poor countries ever since the Fund began. As is often the case, there was a long lag between economic perception and its elaboration into a consistent theoretical view. For Fund economics, this task was finished only in the past few years. For a doctrinal history and a formal presentation, see Lance Taylor, 'IS/LM in the tropics : diagrammatics of the new structuralist macro critique', in Cline and Weintraub, *op. cit.* (1981); or else in *Structuralist Macroeconomics.* (New York : Basic Books) (in press).

20. In principle, IMF issuance of its own reserve currency or special drawing rights (SDRs) could be managed in such a way as to give money creation privileges to the Third World. This possibility has been roundly rejected by industrialized countries, as one might surmise. The Arusha conferees [*Development Dialogue, op. cit.* (1980)] come out in favour of a commodity based world monetary system. Such schemes have been floated for at least a century, are universally considered eccentric, and will not be sanctioned by everybody who is anybody in the financial world.
21. Well over half of Third World manufactured exports take the form of intra-company trade. The presiding transnationals can easily set their internal prices to take profits where convenient while still satisfying all GATT provisions regarding non-discriminatory trade.

8

A New Capitalism for A New International Economic Order

KIYOSHI KOJIMA

I. Introduction

The building of a 'New International Economic Order' (NIEO), has recently been discussed widely and seriously by those concerned with the interests of developing countries. This term originated in the Declaration and the Programme of Action on the Establishment of a New International Economic Order on 1 May 1974, and was intensified by the Charter of Economic Rights and Duties of States on 12 December 1974. The idea of NIEO gradually acquired concrete shape through UNCTAD (United Nations Conference on Trade and Development) IV (Nairobi, 1976), the so-called 'global negotiation' since 1980 and elsewhere, but it is still in a emerging, nebulous and flexible stage.

In this Chapter, I treat the NIEO as the whole philosophy and strategy which developing countries or the 'South' have pursued since the World War II, especially since the UNCTAD I (1964), in order to break or restructure the existing, old international economic order so as to make favorable to themselves. This old order itself is not exactly defined, but it is characterized, for example, by the Bretton Woods Agreement and GATT (General

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Agreement on Tariffs and Trade) which aimed mainly at keeping capitalism and the free market mechanism and promoting prosperity among advanced economies, while neglecting the role and interests of huge number of developing countries. The old order was, therefore, challenged by the South and had to be re-examined. Meanwhile, the Bretton Woods system collapsed in 1971, and the old order fell into disorder and chaos : floating exchange rates created uncertainty, OPEC's action aggravated difficulties, and the emergence of newly industrializing countries was seen as a menace, although it should have been welcomed as the successful outcome of their self-reliance effort and assistance received from developed countries. Therefore, the old order now needs to be reformed from the point of view of developed countries as well.

It is thus a question of how to start fruitful dialogue between the South and the North, and how to build a feasible and realistic new international economic order. In approaching this question, it seems to me there exists an almost unsurmountable gap in philosophy between them—a gap larger than that in income levels. Four representative philosophies are examined in Section II. From the basic philosophy, the South has had to demand from the North effective assistance to promote national economic development processes, but, in reality, it has obtained only a limited concession in discriminatorily favourable trade policies. This was a wrong strategy while achieved little. In trade policy, the principle of free trade (or at least freer trade) should be pursued (Section III).

What is really needed for developing countries is international factor movements through aid, direct investment, and transfer of technology to complement some factors of production which are in short supply in Southern countries, even if only marginally, thus enabling them to start and promote national economic development process. I refer to these necessary factor movements as 'international complementation,' a process which calls for a further principle going beyond the market mechanism or the free enterprise capitalist system. Thus, the twin principles called for are : (*a*) free trade for goods already produced and offered to the market, and (*b*) international complementation for promoting national economic development process. Although the latter has primary importance, it should

be undertaken so as to create and expand restructured and upgraded mutual trade (Section IV).

However, to increase this international complementation with more harmonious efficiency, changes in the capitalist or free enterprise system are required. Capitalism in developed countries has already changed internally with the introduction of State welfare measures, and because of that, not only is international complementation hindered, but also business abroad behaves in an extremely capitalistic way. Capitalism must be modified or emancipated externally as well, and welfare policy must spread internationally towards the promotion of national economic development processes in developing countries. Such needed emancipation in capitalism is illustrated in relation to aid and direct investment in Section V.

Harmonious international complementation may be promoted with greater efficiency within neighbouring countries, say, in the Asian-Pacific region, than in a world-wide collective bargaining between the South and the North. Pacific economic co-operation is an effective complement, rather than an alternative, to a global NIEO. The merit of such regional co-operation is examined in Section VI.

II. The Philosophy of the South

To narrow gap in income level between the North and the South nations and to make them equal partners should be the ultimate aim of a New International Economic Order. It appears, however, that the gap in philosophy between the two groups is wider than the gap in income levels and is almost unsurmountable.

I would like to select four thoughts, among many, from scholarly leaders in the United Nations family organizations as most representative of those which have fostered the concept of the NIEO :

(1) *The theory of dependency*

The theory of dependency, though hard even to define precisely, is one of the basic ideas underlying UNCTAD documents since the first Prebisch Report [22]. The theory asserts that

the centre of the world economy (the North or advanced capitalistic, industrialized countries) made the South (developing countries) subordinate as peripheral economies, dependent on exports of primary commodities. Because of this relationship, the South not only suffered from deteriorating terms of trade but also was deprived of opportunities for industrialization and thus for economic development.

Extremists of the dependency theory [1, 8] came to such a logical conclusion as that a delinking (or a cutoff) of commercial and financial relations between the centre and the periphery is a necessary pre-condition for true development based on balanced, equitable and self-reliant growth. This is a pure delinking thesis [Cf. 7, p. 87].

The Prebisch Report does not take such an extreme view as this, but calls for the re-linking or strengthening of the sinews of interdependence between the South and the North. It focuses on the external imbalance associated with the development process and stresses that in order to achieve a 5 per cent (or 2.6 per cent per capita) minimum growth target, the South needs additional exports of primary products, more exports of manufactures to the North, and greater external aid from the North. Thus, the Report calls for structural changes in developing countries and measures of international co-operation.

The main concern of the present Chapter is to enquire into what kinds of measures of international co-operation are really effective and according to which rules they are to be implemented. On this point, the Prebisch Report raises an important question related to the dependency theory : "it (the old order) seems to be inspired by a conception of policy which implies that the expansion of trade to the mutual advantage of all merely requires the removal of the obstacles which impede the free play of these forces in the world economy. These rules and principles are also based on an abstract notion of economic homogeneity which conceals the great structural differences between industrial centres and peripheral countries with all their important implications." [22, p. 6].

(*b*) *The assumption of asymmetrical interdependence*

Nurul Islam of FAO (Food and Agriculture Organization)

expounded that the "relationship between the advanced and less developed countries in many areas of economic transactions is not symmetrical." [12, p. 1]. The flows of trade, capital and labour between the rich and the poor nations exhibit interdependence which is, however, asymmetrical or one-sided. Since the South is in a weaker position, the market mechanism works favourably to the North and unfavorably to the South.

For example, in the primary commodity market, the South's bargaining power is so weak that its terms of trade deteriorate in the long-run and experience wide short-run fluctuations. Therefore, measures for compensating losses in export incomes are required, and even resources cartels like the OPEC (Organization of Petroleum Exporting Countries) are justified. It is difficult for the South's manufactured products to enter into the North's markets which are pre-empted by big enterprises with strong competitive power and marketing networks. Hence, preferential treatment for products of developing countries is called for. The operations of giant multinational corporations widen the asymmetrical interdependence between the North and South. Large-scale immigration is not accepted by the North, and, instead, 'brain-drains' are taken place against the South's interests.

(c) *A strategy for collective self-reliance*

The Corea Report to UNCTAD IV in 1976 proposed formally the idea of collective self-reliance in addition to the integrated programme for commodities and other well-discussed development strategies. The report is important since it stresses that "Ultimately, it is the development process within these (developing) countries that lies at the heart of the development issue." [5, p. 17].

"It [collective self-reliance] is the expression of a deeply felt desire by the countries of the third world to reduce their dependence on the developed countries, to strengthen their capacity for joint action and to play a part in the building up of the external framework within which development takes place. Self-reliance, let alone collective self-reliance, does not imply autarchy. It does not seek to build a wall of containment that seals off the developing countries from the outside world, but

aims rather at mobilizing the resources of these countries to accelerate the development process and to transform the mechanisms and institutions that have hitherto governed international economic relations." [5, p. 54].

Despite suspicions by the dependency theory, there is no justifiable reason to assume that increased dependence on the developed countries is undesirable or that dependence on other developing countries is desirable to accelerate the development process. Yet both national and collective self-reliance is most desired and hoped for from the point of view of developed countries.

As one of its two basic elements, the concept of collective self-reliance embraces "co-operation among developing countries to establish common positions and to apply a maximum of leverage so as to increase their bargaining power in negotiations and joint action *vis-a-vis* the industrialized countries." [5, p. 55]. In other words, the strategy aims at enhancing the bargaining strength of the third world and developing new countervailing power in the international economic system. This easily leads, as UNCTAD does, to the idea that collective self-reliance means the strategy of collective bargaining *vis-a-vis* the North. But, what and how does the Third World want to bargain collectively *vis-a-vis* advanced capitalistic countries? This is a real issue to be explored.

(*d*) *UN as a world government*

Mahbub ul Haq, a high-level staff member of the World Bank, draws almost all the elements of NIEO in his *The Poverty Curtain.*[10] First, he calls for direct attack on mass poverty which developed into a scheme for basic human needs.

Secondly, he proposes a giant World Development Authority which could be managed exclusively by the Third World for its own benefit. The necessary funds would be collected through automatic transfer of resources—through Special Drawing Rights, taxes on military expenditures, raw material imports, sea-bed mineral developments, and tolls on the international transport system.

Such a proposal was recently made (in 1980) in more concrete form in a plan of UNIDO (United Nations Industrial

Development Organization) to establish an International Industrial Finance Agency (with an initial capital of $ 5 billion) and a Global Fund for the Stimulation of Industry (with total capital of $75-100 billion), while a much bigger World Development Fund is recommended by the Brandt Report [4].

Who can administer the World Development Authority (or Fund) with the required efficiency and fairness? Overtly or not, it is supposed to be the United Nations or some of its family organizations. Here many proponents of NIEO presuppose that the UN is a world government, and overrate the ability of the UN to do everything efficiently and favourably to the South. Such a misbelief is also found in various declarations and codes of conduct.

The argument also presupposes that there already exists one world at least among developing countries. This is a sheer illusion. The truth is that they can hardly get consensus among themselves.

III. Achievements in the Aspect of Trade Policy

All the philosophies of the South assert that developing countries have weak bargaining positions *vis-a-vis* advanced capitalist countries. Standing on that unequal footing, they suspect that "a market system, wholly uncorrected by institutions of justice, sharing, and solidarity, makes the strong stronger and the weak weaker. Markets as useful tools in a functioning social order have a positive and decentralizing role to play. Markets as masters of society enrich the rich and pauperize the poor." [10, p. xii].

The South, as the weaker economies, requested too many things from the North through collective bargaining, mainly in the UNCTAD, but what has been achieved is so far limited as compared with the efforts they made. UNCTAD I (Geneva, 1964) and UNCTAD II (New Delhi, 1968) concentrated primarily on (*a*) defining and underlining aid targets for the developed countries, (*b*) laying principal stress on such trade policy as preferential access by developing countries to the market of the developed countries, *i.e.*, the Generalized System of Preferences (GSP), and (*c*) the principle of non-reciprocity which was ratified as a new chapter for developing countries in GATT

articles (in 1965). Then, (*c*) UNCTAD IV (Nairobi, 1976) adopted the Integrated Program one for (Primary) Commodities and the Common Fund as large as $750 million, including both buffer stock operation and second window purposes, (which is too small a sum as compared to the originally proposed $12 billion), was agreed to set up by UNCTAD V (Manila, 1979).

Now, it should be well recognized that the problems which NIEO must face and solve have two dimensions :

(*a*) How to exchange goods already produced, or the strategy in the trade policy dimension. Here, *pros* and *cons* of the free trade principle (or market mechanism in international trade) must be argued.

(*b*) How to complement internationally the national economic development processes, or the strategy in the international factor movement dimension. There is an urgent need to explore the guiding principle in this dimension which may require measures beyond the market mechanism.

The two dimensions with which NIEO should be concerned are well expressed in the Corea Report : "For the developing countries the compelling need for a new order is not based on the consideration that the prevailing order is no longer working well, but on the more fundamental premise that it did not satisfy their needs even when it was working at its best. The changes called for are not simply those that will rectify the shortcomings which now handicap the economies of the developed countries—changes that will help only towards a better functioning of the present system. The changes must be more far-reaching and bear upon the very mechanisms that weakened, or impeded, the growth and expansion of the developing countries—mechanisms that have contributed to a widening, rather than a narrowing, of global inequality." [5, p. 7].

It does not seem very rewarding for developing countries to demand policies such as GSP which are 'anti-free trade.' Their logic is that while they are in a weaker bargaining position, they want to obtain *tangible* gains from preferences which discriminate in favour of developing countries and against developed countries. Thus, the GSP is a zero-sum game between exports from developing and developed countries. A positive gain should be created by the overall reduction of the MFN (most favoured nations) tariffs. But the GSP poses a dilemma for

developing countries in that they cannot ask the reduction of MFN tariffs in order to retain preferential margins. The GSP benefits only Newly Industrializing Countries (NICs) which are already strongly competitive and rather suppresses the exports from other least developed countries. It is even abused by the developed countries using it as an excuse to impose quota restrictions on manufactured imports from NICs. The real question is whether or not the GSP (and protective tariffs) can really support infant industries or, in more general terms, promote national economic development. The answer is "No". [Cf. 2].

Although the Integrated Programme for Commodities (IPC) involves many elements, even aid, its trade policy aspect is much inspired by the success of the OPEC's resource cartelization and it has an anti-free trade nature. But the results of the IPC seem to have borne little fruit since oil is a very special case with exceedingly low elasticities, considerable macro effects, and is no real parallel for other commodities.

What the developing countries should properly demand in the trade policy dimension is free access to the developed countries' markets, the avoidance of tariff escalation, the reduction and elimination of MFN tariffs and non-tariff measures, the provision of value-added tariffs, and the creation of wider market by positive structural adjustments. Such overall liberalization of trade in the developed countries should be enforced by the strong collective bargaining power of the Group of 77 on a non-reciprocal basis.

Although reciprocity is not requested for developing countries, they would benefit from liberalization in many aspects of their complicated trade and exchange controls, for example, in high tariffs on imported capital goods and over-valued exchange rates.

The free trade principle is based upon the idea that "imports are gains." To exchange or trade goods which are already produced and offered to the market with no artificial barriers is beneficial and contributes to raising welfare of consumers and users. Free trade has, therefore, universal truth. Liberalizing imports is undertaken to benefit of importing countries and should even be done unilaterally whether or not partner countries do the same.

We recognize that there is a big gap in the South's philoso-

phy which is heterogeneous from the old, capitalist order, as explained above. But we are not able to find any suitable measures to achieve the aims of the NIEO with respect to trade policy. Free trade or freer trade is the only common strategy to be achieved by both sides, since it has universal and neutral truth as far as exchange of goods produced is concerned.

What the South has achieved so far in the aspect of trade policy seems to be unrewarded. The South aimed at expanding manufactured exports through GSP. The results of such export promotion depend entirely upon reactions of importers which are beyond the control of exporters. There is no justifiable reason why import barriers, even discriminatorily favourable ones, are requested for developed countries in order to promote export from developing countries. In an open market, it is impossible to identify whether goods come from developing countries or elsewhere. We cannot buy, except as charity, goods at price higher than the quality is worth for the sake of the fact that it is produced by developing countries. But, the productive capacity which they lack must be complemented internationally. This is the reason why double principles are called for, as will be touched upon presently.

IV. International Complementation of National Economic Development Process

Reactions of modern economists [See 2, 3, 6, and 13] in the advanced capitalistic society are cool towards demands by the NIEO for trade policies such as presented in the previous section. Negotiations on trade policies between the South and the North took so long and its results were, as expected, so limited that the South got frustrated and escalated its demands, directing them to basic reconstruction of the pattern and order of international division of labour and trade between the South and the North.

I do feel that double principles are called for in order to attack the South-North problems: (*a*) the free (or freer as far as possible) trade principle in the exchanges of goods already produced; and (*b*) a new principle, which should be explored, in the international factor movement dimension (or in international complementation) in order to facilitate the development

of the national economic complex in each nation or group of nations in the South.

Instruments for achieving international complementation of production factors are: (*a*) various kinds of aid, (*b*) direct foreign investment and other capital flows, (*c*) transfer of technology, and (*d*) the imports of input goods which could not be produced at all or only at much higher costs in developing countries. It is of urgent need for developing countries to complement through those instruments some factors of production which are even marginally in short supply at each stage of economic development, thus causing economic imbalances. If international complementation is undertaken properly, even if it is marginal in volume, it accelerates greatly the national economic development processes in developing countries and contributes efficiently to the reconstruction of the pattern of international division of labour and centre—periphery relations.

I would like in the present Chapter to stress, and persuade the South, the importance of international complementation of national economic development processes, since to do so is the only way to open meaningful dialogue between the South and the North, and to fill the big gap in philosophy. There are a number of difficulties to be overcome, however. A new principle for the international complementation is not yet well developed for it belongs to dynamic development issues beyond what the well established *static* trade theory is able to handle. Moreover, there is misunderstanding and even suspicion that international complementation may strengthen, not only the free-trade regime, but also dependence of developing on developed countries. In order to avoid this, capitalism in the advanced economies should be more emancipated, domestically as well as externally.

One of the most important reasons why international complementation needs to go beyond international trade is the fact that there are such big differences in productive factor endowments between the South and the North and that the resultant gap in income levels cannot be rectified through free trade alone.

The so-called Heckscher-Ohlin-Samuelson theorem [23] within a static trade theory context proved with strict conditions that free trade will bring about the international equalization of

factor prices and income levels. Furthermore, Robert Mundell [19] showed that free trade and a sufficient amount of international capital movement are complete substitues for each other, bringing about the same result, for example, the international equalization of factor prices.

These theorems hold true, however; only between equally well-industrialized countries in which two goods exported and imported mutually are commonly produced in both countries with the same production technologies. Such pre-requisites are not met in trade between the developing and developed countries, and therefore, the free trade principle is not only insufficient but also sometimes detrimental to dynamic efforts to narrow the income gap and it is, therefore, condemned by the philosophy of the South.

Economic development means a dynamic, or 'over-time,' process of creating and expanding the national production complex in order to raise the nation's standard of welfare. It evokes questions such as what kind of goods should be produced and how international competitiveness should be strengthened. These economic development efforts depend upon genuine generative forces rather than upon trade policy measures.

The major generative forces are the self-reliance endeavours of developing countries themselves to accumulate capital, to encourage entrepreneurs and enterprises, to improve technology and to train labourers. Without these efforts and given the population explosion, no developing country is able to achieve economic development such as improvement of productivity in food and other primary products, development of natural resources, growth of processing industries, and creation of import-substitution and export-orientated manufacturing industries. It should be stressed that the self-reliance endeavour is the key element for the economic development of developing countries and the reorganization of international division of labour which is the target of the NIEO.

Other generative forces include international factor movements. It is a sheer illusion to expect either mass immigration into the developed countries sufficient to halve the population of the South or vast capital movements into developing countries sufficient to equalize the capital/labour endowment ratio between the South and North. Even the satisfaction of the

basic human needs of huge population of the South calls for an enormous amount of resources, far beyond the capability of international complementation and, therefore, this depends primarily upon the South's self-reliance efforts.

However, the international complementation of self-reliance efforts, though the amount of factor movement is marginal, becomes very effective when the efforts of a developing country reach a stage where it can identify industries with potential comparative advantages. An industry may not grow successfully because it lacks some part, though marginal, of a needed input complex such as capital, technology, managerial know-how and skilled workers. It will not be feasible or at least it may take long time to supply the missing factor through efforts at self-reliance, but this may be achieved very efficiently through international complementation, especially through direct foreign investment.

Thus, whether or not international complementation is necessary and effective is related to the well-known argument for infant industries. Since it deals with dynamic changes in international trade patterns, differing from the static theory of free trade, protective tariffs on the importation of the manufactured goods concerned are justified in order to protect an industry from foreign competition until it grows and develops sufficient competitive power. But, it should be remembered that the protective import tariffs are not genuine generative forces but merely supporting measures. As arguments around the Mill-Bastable-Kemp tests [14] show, if the venture is a promising infant industry and net profits are anticipated over-time, entrepreneurs, domestic and/or foreign, will set up the new industry without any help from protective trade policy measures. In other words, it is most important to have entrepreneurs, hopefully indigenous ones in developing countries but, if not, complemented by foreign ones, who are able to promote promising infant industries, whereas protective trade policies play a secondary and subsidiary role.

Thus, two different principles are needed : (*a*) free trade or freer trade in the dimension of exchanging goods produced; and (*b*) international complementation in the dimension of national economic development processes in developing countries. Now, do the two dimensions work harmoniously or contradict with

each other? The answer depends upon whether or not an international complementation takes place along the line of (potential or overt) comparative advantages.

Let direct foreign investment (DFI) from developed to developing countries represent the international complementation. DFI, that is the transmission to the host country a package of capital, managerial skill and technical knowledge, is a potent agent of economic transformation and development.

On the one hand, when there is a pro-trade oriented DFI going from an industry with comparative disadvantage in the investing country but with potentially comparative advantage in the host country, it will transfer and spread the superior production process to the host economy. It will strengthen the competitiveness of the industry transferred, making it possible to export its product to the investing country and to third countries as well. The opening of markets in developed countries according to the free trade principle is promoted by the efforts of the investing enterprise. Thus, the trade pattern of the developing country concerned is restructured and upgraded through expanded free trade [16].

On the other hand, there are instances of anti-trade oriented DFI with which monopolistic or oligopolistic enterprises expand global market through substituting for exports. Such American-type DFI is undertaken by giant multinational corporations and faces severe condemnation by the South.

To sum up, one of the logical, though extreme, conclusions of the dependency theory is 'delinking' which is in some degree integrated as a key element into the NIEO strategies. Since 1974, following the OPEC's action, the Group of 77 or the Non-Aligned Group proposed the permanent sovereignty of States over their natural resources, collective self-reliance, a giant world development fund and so forth which implies that the United Nations should become a World Government for the South. These grand designs are unrealistic and self-defeating unless appropriate interdependence with developed economies proceeds hand in hand with the developing countries' own healthy self-reliance efforts.

But these intentions of the new strategy for a NIEO are very important and right for restructuring the international division of labour between the South and the North, making them equal

trade partners. The South, however, does not know how that aim can be achieved. It has come to realize that discriminatory trade policies, such as GSP and IPC, are of limited use and, beyond that, dynamic changes in the national production mix are really needed. Thus, self-reliance or collective self-reliance efforts for promoting national economic development processes in developing countries are urgently needed. At the same time, these processes can be efficiently complemented internationally through factor movements. The international complementation of national economic development processes of the South is the most promising instrument to bridge gaps in philosophy as well as in income levels between the South and the North. But, there still remain a number of issues in connection with the international complementation to be explored as in the next section.

V. Beyond the Welfare State

Gunnar Myrdal proposed two decades ago such a challenging idea as "beyond the welfare State" [20], calling for the external or international spread of welfare policies from the rich and progressive Western countries, including Japan. A modern capitalism or free enterprise system has tremendously changed since the World War II within each country under the name of welfare State measures. Nowadays, advanced capitalist economies take better care of the weaker groups such as labourers, consumers, disabled and aged persons, etc.

We may buy goods produced by, say, disabled persons once or twice on a charity basis, but an open market cannot distinguish them from goods from other supply sources. It evaluates them on a fair, equitable and non-discriminatory basis and decides prices according to quality. This is the principle of free exchange of goods already produced. However, a modern emancipated society provides disabled persons with suitable jobs, trains them, and equips them with specialized factory and machines. This is the welfare State measure which transcends the market mechanism or free enterprise system. Thus, double principles are necessary.

Now, the South or developing countries are supposed to be in a weak position *vis-a-vis* advanced Western capitalist

countries, according to the philosophies of the South as explained in Section II. Why, then, should the advanced country not extend welfare measures externally beyond its borders to neighboring developing countries? Its main instruments could be the international complementation of national economic development processes in developing countries.

On the contrary, as already explained, political reality has resulted in limited concessions in the trade policy area, such as GSP, non-reciprocity, and IPC which work against the free trade principle in goods already produced. Morever, it appears that, because of the progress of national welfare measures within each advanced country, its external spread through international complementation is hindered, not promoted.

First, Myrdal mentions that "The Great Awakenning is, of course, from their [the Western world's] point of view, nothing else than the rapid spread over the globe of the old ideals of liberty, equality and brotherhood, which are the cherished tenets of Western civilisation, and which have increasingly become realised in the last two generations within the national Welfare State of the individual countries of the Wertern world." [20, p. 169].

"With the nationalistic direction of interests in the Welfare State, and particularly with the decentralisation of influence to bargaining organisations on many levels, there will normally be strong attempts to withstand such an adjustment [for increasing imports from developing countries]. I recall that the Welfare State has habitually won internal stability and flexibility at the price of a lower degree of international adjustability." [20. p. 175]. "The Welfare State is narrowly and irrationally nationalistic." [20, p. 186].

As Myrdal predicted two decades ago, advanced Western capitalist economies today are seriously suffering from unemployment and inflation, mainly due to excessive welfare measures and especially strong union activity, and have, therefore, increased protection against imports. Stagflation is a broad issue and should not be used as an excuse for controlling imports, but it is inevitable that stagflation makes industrial adjustment for increased imports difficult. International complementation should be undertaken in pro-trade fashion so as to increase demands for the exports of the developed country

concerned and, at the same time, to make adjustments necessary to increase imports conducive to upgrading its industrial structure.

Secondly, one of the most important instruments of international complementation is official development assistance (ODA), which has been introduced for the first time since the War and requires considerations beyond the market mechanism or free enterprise system. In that sense, modern capitalism has changed its characteristics even externally, although in a very limited degree, in the right direction.

(*a*) The ODA has been quite marginal in amount, and although its absolute value has increased during the last twenty years, it has decreased in terms of each donor country's GNP, mainly due to the policy priority of domestic welfare measures.

(*b*) The ODA has been provided on a quite arbitrary basis, varying in each donor country. There are no uniform criteria. Aid has been decided mainly from the donor's interests, not the urgent needs of the recipient. The ODA has been used as an instrument for strengthening the 'Pax Americana' regime [11], and for maintaining old colonial relations.

(*c*) Methods of implementing ODA have also been in the interests of each donor country which through bilateral negotiations have insisted on tied purchase clauses although recently these have been relaxed somewhat. The ODA should, in essence be implemented beyond the rule of the market mechanism, but in reality this has not occurred very much except for some limited outright grants and concessional low interest rates.

(*d*) Developing countries have been frustrated because the posted targets of the ODA have not been realized and, it appears to me, they have invented new reasons and explored various new avenues to acquire additional aid, for example, the Common Fund (including its second window) for buffer stock operation of commodities, compensatory financing for commodity export earnings, the so-called SDR (Special Drawing Rights) link with increasing aid, special considerations for MSAC (most seriously affected countries) and LLDC (least developed developing countries), and so forth. This proliferation of aid avenues may not be an advantageous strategy for the South, for not only does each negotiation take a long time, but it is also used by the donors as an excuse to decrease

bilateral ODA and thus the total amount of aid may not increase in line with the South's urgent demands. Both South and North should invent ways and means to increase adequately the total amount of ODA, to multilateralize and untie aid in order to make it more efficient [21], and to make the use of the total ODA more flexible so as to meet the urgent needs of the South.

(*e*) The most serious issue at present is how to deal with the huge accumulated debts and debt-services specially for non-oil producing developing countries (or NOPEC, that is, non-OPEC developing countries). An alleviation of debts or some non-market mechanism measure may be called for. An emancipation of capitalism is required on this issue towards an international spread of welfare measures.

(*f*) The non-aligned countries group, supported by the Brandt Report [4], proposed to build a giant world development fund. This seems to be too extreme and quite unrealistic. If it were planning to make the United Nations a world government, it is merely an illusion. The fund is far beyond the international complementation which we have in mind in this Chapter.

It is most important to clarify the role of aid, or more generally, of international complementation. The new idea should be to extend and spread national welfare policies internationally beyond the territory of each advanced country. The new role should be, through effective international complementation, to start and promote national economic development processes in developing countries. In other words, the international complementation should play a role of 'tutor' for transformation and industrialization of developing countries, as will be touched upon presently.

Thirdly, although direct investment in developing countries or activities of transnational (or multinational) corporations (TNC) if they are properly applied, operate effectively to complement national economic development processes in the South, considerable modification of their capitalistic behaviour is called for.

(*a*) Since the War, direct foreign investment (DFI) has increased tremendously coming mainly from the USA and quite recently from West Germany and Japan. Because of rapid

progress in welfare measures especially in the USA, production cost have risen mainly on account of strong pressure by labour unions, while heavy tax burdens and various legal restrictions have been imposed on business activities. As American businesses lost profit opportunities at home, their overseas activities were accelerated, operating internationally in an extremely capitalistic way [See 9]. The US government supported this trend as a substitute for its relatively declining ODA in order to strengthen its Pax Americana regime [11].

(*b*) A giant American TNC invests abroad usually from the viewpoint of its global strategy to maximize its profits; it invests abroad mainly in monopolistic or oligopolistic industries such as natural resource development, industries with technological advantages and product-differentiated industries—this means that American DFI goes out mainly from industries with comparative advantages. Such industries may insist on setting up wholly owned subsidiaries (*i.e.*, enclaves), justified and supported by the theory of international business administration (which is the prevailing approach to DFI and TNCs), to monopolize foreign markets, to undertake transfer pricing policy and restrictive business practices and other extremely capitalistic measures as far as they contribute to minimizing costs and maximizing profits.

Such American-type TNC activities which usually result in an anti-trade oriented DFI, are not directed to step-by-step or balanced economic development of developing countries but rather the opposite. It should also be remembered that hasty American direct investment abroad from most sophisticated industries which ranked at the top of her comparative advantage structure brought about her present difficulties such as the loss of international competitiveness, deterioration in balance of trade, unemployment and inflation.

(*c*) Therefore, it becomes most important to clarify the role of DFI in foreign aid. DFI in developing countries should play the role of a 'tutor.' In other words, the main role of DFI is to transplant superior production technology through training of labour, management and marketing, from advanced industrial countries to less developed countries, or, in brief, it is the transfer of a superior production to replace inferior ones in the host country. DFI should be an initiator and a

tutor of industrialization in less developed countries. The fact that a subsidiary or joint venture is established in a host country is only the beginning of national economic effects. DFI gradually has an effect spread over the specific industry in the host country through the training of laborers, engineers and managers and makes the establishment of competitive firms by local capital possible, ulimately improving the production function of the entire industry in question and making the new industries competitive in international markets. When the process is completed, it can be said that the new technology is transferred and established in the host country. Incidentally, I shall not treat the issue of transfer of technology separately for its core is the same as the DFI issues.

In order to receive effect benefits from a 'tutor,' it is most important for developing countries to choose carefully what kind of industry and what type of technology they want to receive. Steady economic development in these countries is fostered through an orderly establishment of industries assisted by DFI and an orderly transfer of technology starting with labour-intensive and relatively simple technology, and gradually moving towards more capital-intensive and sophisticated technology. In other words developing countries should start receiving DFI in industries in which they have potential comparative advantage in production and comparative advantage in improving productivity. The latter brings about an orderly transfer of technology which begins in those industries where the technological gap between providing and receiving countries or firms is smallest and therefore, the transfer of technology is easier and its spread effects larger. A pro-trade oriented DFI meets those criteria but an anti-trade oriented type does not [See 16, pp. 152-3].

(*d*) From the viewpoint of new role of DFI as above, when the foreign firm successfully completes its job as tutor, it should transfer ownership by stages to the host country. Similarly, nationalization of property of foreign firms should be sanctioned in so far as fair and prompt compensation is provided. Nationalization in the OPEC countries is a great achievement, although its monopolistic price-raising policy is not welcomed. Also, the UN Commission on Transnational Corporation (to which I have been serving as an expert adviser) will officially

recognize the right of nationalization in the Code of Conducts of TNCs which is now under discussion. This must constitute an evolution and an important modification of modern capitalism and the free enterprise system. In view of strong nationalism in developing countries, non-equity arrangements such as production-sharing contracts, long-term purchasing contracts, etc., instead of wholly-owned subsidiaries, are recommended [25].

Further modification of capitalism is called for in various other fields. Among them, how to alleviate accumulated debts and debt-services in developing countries may be the most serious issue which requires modern capitalism to be changed, although we are not ready to suggest any concrete solution here.

Finally, it should be repeated that self-reliance or collective self-reliance endeavors provide the major generative force in the economic development of developing countries and the prerequisite to making international complementation applicable and fruitful. In this sense, the UNCTAD's proposal of 'collective self-reliance,' including economic co-operations among developing countries and the creation of their own multinational corporations, transnational bank, trading firms and shipping companies, is to be supported.

On the other hand, since the annual flow amount of international complementation, though very effective, is limited in view of restricted providing and absorptive capacity, it should be utilized most efficiently. Here, in developed countries, an integrated policy of international complementation, import liberalization and structural adjustment is called for. It is most important to implement the international complementation in a 'pro-trade' oriented direction. Since it aims at importing goods (*i.e.*, offshore sourcing) which are produced at lower cost through aid and direct investment in developing countries, it is beneficial for developed countries to liberalize imports of the goods concerned. Since international complementation goes out from disadvantageous industries in developed countries, while those industries contract, resources can shift to more capital-and knowledge-intensive industries enjoying comparative advantages.

Thus, a restructured and upgraded trade between the South and North will be created and expanded. In this way, inter-

national complementation should be closely linked with free or freer trade and structural adjustment. Although far beyond the present Chapter, it can be conceived that transformation and industrialization will successfully spread through international complementation measures to many countries in the South and ultimately is a network of intra-industry specialization will be established between the North and the South where they operate as equal partners [15, Chap. 7].

VI. Pacific Economic Co-operation : A Complement to NIEO

It is not easy and sometimes tedious and fruitless to realize NIEO strategies through world-wide collective negotiations between the South and the North. It is also utterly impossible to extend the welfare State measures globally and to establish directly a 'welfare world.' It would be more realistic and effective to implement the proposed plan of international complementation of national economic development processes in developing countries within a wide area of closely interdependent neighbouring countries. We have in mind, for example, building a Pacific Economic Community or strengthening Pacific Economic Co-operation. Such co-operation already exists, for example between the European Community and mainly African countries under the terms of the Lome Treaty of 1975. Such regional approach towards South-North problems does not intend to substitute for a global NIEO strategy but it could complement the latter.

Why a Pacific economic co-operation approach is necessary and useful as complement to a global NIEO strategy is illustrated by :

(*a*) Only closer neighbours belonging to the related region are able to identify real common issues with intimate knowledge to feel solidarity, and to find ways and means of appropriate solution. Even the South-North problem varies widely for Asia, Latin America, the Middle East and Africa respectively.

(*b*) Developing countries (or the South or the Group of 77) consist of quite heterogeneous economies, cultures and political entities, as is well known. In order to cover widely varied interests, demands of the group as a whole tend to be too many

in kind and too big in amount. At the same time, the strategy of the entire group is usually led by a country which is thought to be the weakest, and hence can be extreme, unrealistic and unfeasible. Global collective negotiation takes a long time and its results are limited in relation to the efforts made. Even economic co-operation among developing countries and other collective self-reliance efforts cannot be promoted among the entire South but rather are effective only within each regional group such as ASEAN, Andean Group, LAFTA, etc.

(*c*) There remain certain issues which the NIEO strategies cannot cover or deal with immediately. For example, the Common Fund for buffer-stock operations is used with priority for a limited number of commodities, while ASEAN countries have urgent interests in their speciality commodities and in requests to Japan and other developed countries concerning the ASEAN-STABEX (Stabilization of Export Earnings) and the rubber agreement. In providing GSP (preferences), each developed country should have special consideration for neighboring developing countries in choosing commodity items, preferential margins and quota limitations. In this way, the broad strategy established by NIEO must be complemented with greater efficiency and promptness through regional economic co-operation.

(*d*) In order to promote, on the one hand, national economic development processes in developing countries through international complementation, and on the other hand, in order to implement integrated international complementation, import liberalization, and structural adjustment policies in developed countries, a regional-multilateral approach, both in groups of a few developed countries and in groups of relatively homogeneous developing countries in the same region is feasible and efficient, whereas bilateral negotiations between one developed country and so many developing countries numbering 117 is inconceivable.

Now, let us illustrate what would be done if an ASEAN-Pacific Forum, that is, a policy consultative forum between five ASEAN countries (Indonesia, Malaysia, the Philippines, Singapore and Thailand) and five advanced Pacific countries (the United States, Canada, Japan, Australia and New Zealand) were established, although it is not the main subject of the

present Chapter to explain details of a Pacific Economic Co-operation agreement [See, 17].

The primary target of such an organization would be to raise the levels of the ASEAN economies rapidly and efficiently through aid and direct investment from the advanced Pacific countries and through the opening of wider markets for their products. In the final phase, the present ASEAN economies should have grown to an industrialized stage equivalent to that of the advanced Pacific countries and thus forged an inter-dependent and equal relationship with the advanced nations similar to that of present-day Europe.

Thus far all the advanced Pacific countries have insisted upon a bilateral approach with the ASEAN nations in providing official aid, making direct investments and arranging trade preferences. However, if a regional-multilateral approach such as advocated here were to be put into effect, a larger and more efficient contribution to economic development and trade growth for all parties could be anticipated. Equally important, the danger of over-presence and domination by one or another of the advanced nations, ever present under the existing bilateral relationships, would be avoided. In addition, as the following suggestions illustrate, a number of more specific benefits might also be realized.

(1) Official development aid to the area could be pooled and used in a multilateral 'no-strings' fashion through the creation of a 'revolving aid fund'. Annual aid commitments from the five advanced Pacific countries could be deposited with the Asian Development Bank to establish the fund. The scheme could be applied to official bilateral aid, including technical assistance, sales in receipt of local currency, and official export credits. Without requiring additional annual aid commitments, the scheme could be made operational immediately. The object would be to work towards the removal of strings from bilateral aid to South-East Asian countries.

The 'revolving aid fund' scheme involves the acceptance of two important principles. The first is that aid credited to the fund would have to be completely unfettered so far as procurements are concerned (*i.e.*, procurements could be made in any donor country or any ASEAN country). The second is that any positive imbalance between a country's sales under aid procure-

ments and its aid commitment should be held with the fund. The original deposits and accumulated deposits could not be withdrawn from the fund, but would be utilized by aid receivers in subsequent years. To illustrate, suppose that donor country A provides $500 million worth of aid but only $400 million is spent, while donor country B provides $500 million but exports goods and services to the value of $600 million to the recipient countries. Country B would accumulate a $100 million credit with the fund, raising its total to $600 million, while country A's total would decline commensurately. Thus, country B would have automatically increased its aid commitments by $ 100 million in the second year. Had the freeing of this aid taken place outside the fund, country B would have earned foreign exchange at country A's expense. The 'revolving aid fund' obviates this exchange problem, essentially because it requires that country B's aid obligation increases automatically with excess earnings. The end result is that the effectiveness of the total aid programme would increase even though the amounts involved remained unchanged.

The 'revolving aid fund' scheme could be used for several other important purposes, since deposits would accumulate over time from the gap between annual aid commitments and disbursements (usually some 20 to 30 per cent), and from deposits by 'excess-exporters.' Let me suggest four possibilities :

(*i*) ASEAN countries could be assisted in their economic development through a stabilization of export earnings (STABEX) scheme for certain primary products. Loans for compensation of export income losses, with very low interest rates, could be provided from the fund.

(*ii*) Sub-regional buffer stocks in rice, timber and other products in which ASEAN countries have intense and common interests could be created in order to stabilize prices and export earnings relative to those products. The 'revolving aid fund' could provide loans to establish buffer stock schemes when appropriate.

(*iii*) It is important to stimulate the development of natural resources in the Pacific region. The 'revolving aid fund' could be used to supply low interest loans for research and the exploration for mineral resources, and also to provide international insurance coverage for private foreign investment.

(*iv*) ASEAN exporters require access to funds for export credit in order to provide terms which are competitive with those of exporters in advanced countries. The ability to provide export credit to buyers, within and outside the region, will become more important as the capacity for industrial exports grows. The 'revolving aid fund' could be used to provide export credit funds for the benefit to South-East Asian countries.

Perhaps I have dwelt too much upon technicalities relative to the 'revolving aid fund' scheme but the fact is that, if co-ordinated policy actions are taken, there is room to facilitate massive sub-regional economic development through such a device.

The other major benefits of an ASEAN-Pacific Forum can be cited more briefly :

(*b*) Official development aid from the Pacific advanced countries to the ASEAN nations could be greatly enlarged. The aid should cover many projects, including ASEAN complementary industries which have already been planned. In addition, new large-scale aid directed at such ends as doubling rice production and constructing an ocean-transportation network, ought to be considered.

(*c*) Joint venture investments and non-equity arrangements between advanced countries and ASEAN countries could be encouraged for the development of mineral and other natural resources, for the establishment of light consumer manufacturing, and for the creation of heavy industrial growth points (including ASEAN complementary industries). In all instances, the projects should be economically efficient and competitive.

(*d*) In order to improve market access for ASEAN products—both primary products and manufactures—advanced countries have provided generalized preferences on more generous terms and have reduced M.F.N. tariffs through GATT negotiations. These efforts have not been sufficient and must be much improved despite the fact that counteractions, such as the strengthening of safeguard clauses, have recently appeared. In addition, structural adjustment in developed countries must be undertaken to nurture and encourage the expansion of ASEAN trade which will come in response to the 'boomerang effects' of past aid and investment. If only one country establishes an open market policy, reduces tariffs, and undertakes preferences

and structural adjustment, the export products from the developing economies would be directed at that country, thereby causing a deterioration in its international balance of payments and in its level of employment. It is essential that all advanced countries co-operate in adopting at least vaguely similar open market policies. Common considerations of value-added tariffs and cumulative ASEAN contents should be given attention. A co-operative policy is as essential here as it is in the case of domestic demand management and business recovery policy among advanced countries. It goes without saying that an ASEAN-Pacific Forum would provide the concerned nations with an avenue for dialogue on these matters.

VII. Conclusion

It is now time to build a sound and reasonable new international economic order which both the South and the North desire in order to restructure the present unequal interdependence. In order to achieve this, it is most important to narrow the wide gap in philosophy from both sides. It is hoped that developing countries, on the one hand, will not insist too strongly on biased philosophies and will adopt a more realistic strategy for dialogue and negotiation *vis-a-vis* the North. On the other hand, in the developed countries, capitalism or free-enterprise system, which has already changed domestically into a welfare State regime, should be much more liberal in its international activities. In this way, international complementation of national economic development processes in the South will be efficiently promoted and a new restructured free trade regime will be created and expanded.

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PART C

GLOBAL EFFORTS TOWARDS NEW WORLD ORDER

9

Representing the Collective Economic Interest of the Third World : The Group of 77

KARL P. SAUVANT

I. The Origin of the Group of 77

In December 1961, the General Assembly of the United Nations designated the 1960s as the "United Nations Development Decade."[1] At the same time, it also adopted a resolution on "International Trade as the Primary Instrument for Economic Development,"[2] in which the Secretary-General of the United Nations was asked to consult governments on the advisability of holding an international conference on international trade problems. These resolutions led to the United Nations Conference on Trade and Development (UNCTAD); their underlying developmental model—trade as the motor of development—shaped the outlook and approach of the new institution.

After obtaining favourable reactions from most governments and strong support from developing countries "Conference on the Problems of Economic Development" held in Cairo in July 1962,[3] the United Nations General Assembly decided to convene the First Sessions of UNCTAD.[4] A Preparatory Committee was established to consider the agenda of the conference and to prepare the necessary documentation.

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During the deliberations of the Preparatory Committee—in identifying the relevant issues and problems, endeavouring to list proposals for action, and indicating lines along which solutions might be sought—the divergence of the interests of the developing from those of the developed countries began to emerge sharply. The distinctive interests of the Third World manifested themselves at the closing of the second session of the Preparatory Committee (21 May to 29 June 1963), when the representatives of the developing countries submitted a "Joint Statement" to the Committee in which they summarized the views, needs and aspirations of the Third World with regard to the impending UNCTAD session. Later that year, this Statement was submitted to the General Assembly, as a "Joint Declaration", on behalf of 75 developing countries which were members of the United Nations.[5] This Declaration was the prelude to the establishment of the Group of 77.

UNCTAD I met in Geneva between the 23rd of March and the 16th of June 1964. It was the first major North-South conference on development questions. During the negotiations at that conference, economic interests clearly crystallized along geopolitical-group lines and the developing countries emerged as a group that was beginning to find its own identity. The "Joint Declaration of the Seventy-Seven", adopted on 15 June 1964, referred to UNCTAD I as "an event of historic significance"; it continued :

> The developing countries regard their own unity, the unity of the seventy-five, as the outstanding feature of this Conference. This unity has sprung out of the fact that facing the basic problems of development they have a common interest in a new policy for international trade and development. They believe that it is this unity that has given clarity and coherence to the discussions of this Conference. Their solidarity has been tested in the course of the Conference and they have emerged from it with even greater unity and strength.
>
> The developing countries have a strong conviction that there is a vital need to maintain, and further strengthen, this unity in the years ahead. It is an indispensable instrument for securing the adoption of new attitudes and new

> approaches in the international economic field. This unity is also an instrument for enlarging the area of co-operative endeavour in the international field and for securing mutually beneficent relationships with the rest of the world. Finally, it is a necessary means for co-operation amongst the developing countries themselves.
>
> The seventy-five developing countries, on the occasion of this declaration, pledge themselves to maintain, foster and strengthen this unity in the future. Towards this end they shall adopt all possible means to increase the contacts and consultations amongst themselves so as to determine common objectives and formulate joint programmes of action in international economic co-operation. They consider that measures for consolidating the unity achieved by the seventy-five countries during the Conference and the specific arrangements for contacts and consultations should be studied by government representatives during the nineteenth sessions of the United Nations General Assembly.[6]

Although the recommendations adopted by UNCTAD I were to a large extent inspired by the conceptual work undertaken in the preceding decade by the Economic Commission for Latin America—whose Executive Secretary, Raul Prebisch, became the Secretary-General of UNCTAD I and stayed in that post as one of the principal promoters of Third World unity until 1969--the conference was nonetheless a new departure : for the first time, the Third World *as a whole* had participated in the elaboration of a comprehensive set of measures. Accordingly, "new" was the theme of the ' Joint Declaration of the Seventy-Seven" : UNCTAD I was recognized as a significant step towards "creating a new and just world economic order" ; the basic premises of the "new order" were seen to involve "a new international division of labour" and "a new framework of international trade" ; and the adoption of "a new and dynamic international policy for trade and development" was expected to facilitate the formulation of "new policies by the Governments of both developed and developing countries in the context of a new awareness of the needs of developing countries." Finally, a "new machinery"

was considered necessary to serve as an institutional focal point for the continuation of the work initiated by the conference.

This machinery was established later that year, when the General Assembly decided to institutionalize UNCTAD as an organ of the General Assembly.[7] UNCTAD remained the main forum for global development discussions for the next decade and—guided by the expectations voiced in 1964—it became the focal point of the activities of the Group of 77 which, by the fall of 1980, counted 122 members.[8] (United Nations membership totalled 154.) During that period, the Group of 77 became an integral part of UNCTAD, was one of the most important agents for the socialization of the developing countries in matters relating to international political economy, and established itself firmly in all major relevant parts of the United Nations system as the Third World's principal organ for the articulation and aggregation of its collective economic interest and for its representation in the negotiations with the developed countries.[9]

II. Purpose and Objectives

No-one has formulated the political point of departure of the Third World more succinctly than Mwalimu Julius K. Nyerere when he said in his address to the Fourth Ministerial Meeting of the Group of 77 in Arusha, in February 1979 :

> What we have in common is that we are all, in relation to the developed world, dependent—not interdependent—nations. Each of our economies has developed as a by-product and a subsidary of development in the industrialized North, and, it is externally oriented. We are not the prime movers of our own destiny. We are ashamed to admit it, but economically we are dependencies– semi-colonies at best—not sovereign States.[10]

The objective is, therefore, quite naturally, "to complete the liberation of the Third World countries from external domination."[11]

Until the early 1970s, the Group of 77 thought to achieve this objective through improvements of the system, the high-

points being UNCTAD II (New Delhi, 1968) and UNCTAD III (Santiago, 1972) and the preparatory First (Algiers, 1967) and Second (Lima, 1971) Ministerial Meetings of the Group of 77, as well as UNIDO I (Vienna, 1971) and the adoption of the international development strategy for the Second United Nations Development Decade (1970). A number of changes were in fact made (witness, for instance, the Generalized System of Preferences), by many other negotiations (for instance in the commodity sector) hardly made any progress and no drastic improvements took place. On the contrary, the gap between North and South widened, especially for the least developed among the developing countries.

The limitations of the approach taken by UNCTAD and the Group of 77 naturally took time to become apparent. In addition, until the end of the 1960s, neither developed nor developing countries had fully realized the importance of economic development as a necessary complement to political independence. The development issue was regarded as "low politics", left to the technical ministries of planning, economics, commerce, finance, and development. Attempts to politicize the issue, therefore, failed. The most prominent among them was the "Charter of Algiers", adopted by the First Ministerial Meeting of the Group of 77 in October 1967 in preparation of UNCTAD II. The intention of this first comprehensive declaration and programme of action of the Group of 77 was to give a new impetus to North-South negotiations. For this purpose, the Ministerial Meeting even decided to send high-level "goodwill missions" to a number of developed countries (both those with centrally-planned and those with market economies) to inform key governments about the conclusions of the meeting and to persuade them of the need for accelerated progress.[12]

At the beginning of the 1970s, however, several developments converged to produce a change in attitudes : the political decolonization process had largely run its course and the political independence of most of the new States had been consolidated ; the political-military pressures of the Cold War were subsiding ; the regional and international development efforts had shown disappointing results ; and doubts had begun to be voiced about the prevailing development model.[13] As a result, more attention

countries, this meant that questions of economic development began to receive greater attention and they became increasingly aware that the institutions of the international economic system had been established by the developed market economies to serve primarily their own purposes.[14] Since, in the process, the interests, needs and special conditions of the developing countries had largely been ignored, they remained in poverty and dependency. Hence, fundamental changes in the international economic system were required to establish a framework conducive to development and to create the economic basis of independence. In fact, the system itself had come under serious strain with the breakdown of the Bretton Woods system, the food and oil crises, payments imbalances, a general surge of inflation, world recessions, increasing protectionism, rising environmental concerns and the spectre of the scarcity of raw materials. When the economic tranquility of the 1960s gave way to the turbulence of the 1970s, international economic matters could no longer be ignored.

The non-aligned movement offered the framework for this recognition to grow and, within a few years, development questions became "high-politics" : they were elevated to the level of heads of State or government and were made a priority item on their agenda. Between 1970 and 1973, the non-aligned movement evolved into a pressure group for the re-organization of the international economic system.[15] Since the Non-Aligned Countries considered themselves to be playing a catalytic role within the Group of 77,[16] the politicization of the development issue had an important effect on the manner in which this issue was perceived, presented and pursued within North-South negotiations. Thus, the political clout and pressure of the Non-Aligned Countries, coupled with OPEC's forceful actions, led to the Sixth Special Session of the United Nations General Assembly which adopted, on 1 May 1974, the "Declaration and Programme of Action on the establishment of a new International Economic Order".[17] Hence, almost exactly one decade after the first session of UNCTAD, and after years of debates about improvements in the international economic system, the call for a new beginning was again taken up—this time, however, with a view to a structural re-organization of the world economy. The establishment of the New International Economic

Order (NIEO) has since been the main objective of the Third World. The concrete changes that the Group of 77 proposes in order to achieve this objective are spelled out in details in the "Arusha Programme for the Collective Self-Reliance and Framework for Negotiation," adopted by the Fourth Ministerial Meeting of the Group of 77 in Arusha, in February 1979.

While the Non-Aligned Countries played a key role in making the development issue a priority item on the international agenda, the Group of 77 has become the principal organ of the Third World through which the concrete actions required for the establishment of the NIEO are negotiated within the framework of the United Nations system. This objective dominated UNCTAD IV (Nairobi, 1976) and UNCTAD V (Manila, 1979) and the preparatory Third (Manila, 1976) and Fourth (Arusha, 1979) Ministerial Meetings of the Group of 77 ; UNIDO II (Lima, 1975) and UNIDO III (New Delhi, 1980) and the preparatory meetings of the Group of 77 in Vienna (1974), Algiers (1975) and Havana (1979) ; the regional preparatory meetings convened for each of these UNCTAD and UNIDO conferences by the African, Arab (for UNIDO only), Asian, and Latin American members of the Group of 77 ; the 1976 Mexico City Conference on Economic Co-operation among Developing Countries ; the 1975-1977 Paris Conference on International Economic Co-operation, in which the Group of 77 acted through the Group of 19 ; and a series of ministerial-level meetings of the Group of 77 (including meetings of ministers for foreign affairs) in preparation for sessions of the United Nations General Assembly. It also entered into the discussions in the IMF and the World Bank, where the Group of 77 has been acting through the Group of 24 since 1972.

There is still a considerable gap between the declaration of a new order and the action programmes formulated to establish it in the major areas of North-South interactions : commodities and trade, money and finance, R and D and technology, industrialization and transnational enterprises, and food and agriculture. In fact, an analysis of the contents of the present NIEO programme shows that, although a number of additional problems have been identified, many of the concrete proposals under discussion have remained the same since 1964—even if the emphasis on some of them, *e.g.*, proposals concerning

technology, has grown. This is a clear indication of the slow progress made in the past. Now, however, these proposals are aimed at creating new economic structures ; and, to a greater extent than in the past, it has come to be recognized that the various dimensions of North-South interactions are interrelated and hence have to be approached in a comprehensive and integrated manner. Over time, the gap between objectives and concrete proposals may be closed through the elaboration of new policies or possibly even through changes in the underlying development model. For the time being, however, this model continues to assume that development is best served by a very close association of the developing with the developed countries.

A conceptual change may, however, be in the offing with the concept of individual and collective self-reliance. In contradistinction to the prevailing associative development strategy with its orientation towards the world market and its heavy reliance on linkages with the developed countries for stimulating industrialisation, self-reliance seeks greater selectivity in traditional linkages, accompained by a greater mobilization of domestic and Third World resources and a greater reliance on domestic and Third World markets. It is these markets, rather than those in the developed world, which are now expected to provide the principal stimulus for economic development.

The concept of self-reliance was introduced into the international development discussion by the Non-Aligned Countries in 1970, which were also responsible for most of the practical follow-up that has been undertaken so far in this area.[18] Although self-reliance can be strengthened by international measures, it requires primarily a strengthening of linkages among developing countries. For this reason, the Group of 77—which, as was pointed out above, concentrates almost exclusively on North-South negotiations within the system of the United Nations—has been slow in incorporating self-reliance into its own programme.

The first effort was made at the 1976 Third Ministerial Meeting of the Group of 77, during which a resolution on economic co-operation among developing countries was adopted. Through this resolution, which links the work of the Group of 77 with that of the Non-Aligned Countries (whose pioneering

merits in this area are recognized in the resolution), it was decided to convene a meeting in Mexico City during the month of September 1976 to prepare a detailed programme on economic co-operation. Originally, it was planned to hold this meeting at the level of an inter-governmental woking group ; but at the subsequent UNCTAD IV session it was decided to hold it at the highest possible level. Hence, the Conference on Economic Co-operation among Developing Countries was convened in Mexico City from the 13th to the 22nd of September 1976, to date the only major conference of the Group of 77 that was not closely and directly related to an important impending activity within the United Nations system.

The full integration of this approach into the Group's conceptual mainstream came, however, only during the 1979 Arusha Fourth Ministerial Meeting in preparation of UNCTAD V, an event signalled by the very title of the final declaration of that meeting, the "Arusha Programme for Collective Self-Reliance and Framework for Negotiations." As this title indicates, the declaration consists of two parts : a programme for self-reliance (even if this is formulated only in terms of economic co-operation among developing countries) and a programme for North-South negotiations. Thus, a shift in the United Nations-orientation of the Group may be taking place and the Group of 77 (together with, or in addition to, the Non-Aligned Countries) may make greater efforts towards stronger South-South co-operation.

A re-orientation towards South-South co-operation is facilitated by the extremely slow pace of progress in North-South negotiations and the frustrations created thereby, as well as the recognition of the limits of the prevailing associative development model. It is also facilitated by the bi-dimensional nature of the self-reliance approach. One dimension, as described above, involves bringing about changes in the patterns of interaction between North and South which allow a more equitable sharing of the benefits of and control over international economic activities by developed and developing countries.

Besides being a part of the necessary structural change, self-reliance is also an instrument for achieving it : it increases the individual and collective bargaining strength of the developing

countries and, especially where it allows joint action, creates the countervailing power that is needed to negotiate the desired changes in the international system. In this respect, self-reliance means strengthening the joint-action capacity of the Third World. An awareness of the weakness of each individual developing country in isolation was, in fact, the genesis of the Group of 77. In this sense, then, the Group of 77 "is a kind of trade union of the poor," which is kept together by "a unity of nationalisms" and "a unity of opposition"—not by "the ideals of human brotherhood, or human equality, or love for each other," or, for that matter, a common ideology.[19] The unity of the Group of 77 is based on a shared historical experience, a shared continuing economic dependence, and a shared set of needs and aspirations.

Still, since the Group is by no means homogeneous, group cohesiveness is not an easy matter to maintain. The immediate interests and specific negotiating priorities of many of its 122 members—this greater number in itself makes it difficult to achieve consensus—are different from those of the others. The individual countries differ vastly from one another with respect to their cultural, ideological, political, and economic systems. No strong unifying institutional force exists : the Group of 77 has no long-term leadership, regular staff, headquarters, secretariat or, for that matter, any other permanent institution. In fact, the office of the co-ordinator rotates on an annual basis in New York and Vienna and on a three-monthly basis in Geneva. And although countries like Algeria, Argentina, Brazil, Egypt, India, Indonesia, Jamaica, Mexico, Nigeria, Pakistan, the Philippines, Sri Lanka, Venezuela and Yugoslavia often play an important role in many issues, none of them dominantes the Group. Very important also are the great differences in the level of economic development, especially between the Latin American Group on the one hand and the African Group on the other. This cleavage is accentuated further by the exclusion of most Latin American countries from the preferential schemes of the Lome Convention. The individual weight of some countries can also complicate matters, especially when these countries are specially cultivated by developed countries and when occasions for separate bilateral deals arise. Similar complications can be created by the continuation of

strong traditional links of some developing with some developed states—*e.g.*, of some Central American countries with the United States or some African countries with France. Some of the special interests of the members of the Group have, in fact, led to the formation of informal sub-groups—of, for example, the most-seriously-affected, the least developed, the newly-industrialized, and, of course, the oil-producing. While the success of OPEC was welcomed by most developing countries, especially since it strengthened the bargaining power of the Third World as a whole, the balance-of-payments burden of the increased oil price has introduced considerable strains into the Group of 77 (and, for that matter, into the non-aligned movement). But since there exists no alternative for the oil-importing developing countries, this experience, however painful, is not likely to endanger the unity of the Group of 77.[20]

In the face of these factors it is a formidable task indeed to maintain the cohesiveness of the Group. But so far, the strength of the common interests, the capacity to maintain consensus through acceptable trade-offs among the developing countries themselves, the recognition that separate deals bring only marginal and temporary concessions, and the resistance of the developed countries to enter into a broad range of detailed negotiations have succeeded in overriding the pressures towards disunity. The maintenance and strengthening of the unity of the Group of 77 is, in fact, a vital precondition for achieving the desired changes in the international economic system. To return to Nyerere's analogy and his evaluation of OPEC's "historic action" in 1973 :

> But since then OPEC has learned and we all have learned once again, that however, powerful it is, a single trade union which only covers one section of a total enterprise cannot change the fundamental relationship between employers and employees. . . . For the reality is that the unity of even the most powerful of the subgroups within the Third World is not sufficient to allow its members to become full actors, rather than reactors, in the world economic system. The unity of the entire Third World is necessary for the achievement of fundamental change in the present world economic arrangements.[21]

III. The Group of 77 in the United Nations in New York

Until the mid-1970s, UNCTAD was the unchallenged institutional focal point of the Group of 77. But since the beginning of the 1970s, following a directive of the Charter of Algiers that "informal co-ordinating groups of the Group of 77 should be established at all headquarters of the various United Nations specialized agencies,"[22] the Group began to constitute itself, with more or less permanence and institutional infrastructure (and, depending on the delegations present at a given forum, a varying number of active members). in several other fora. As a result, the Group of 77 has become multi-central organization whose main foci are UNCTAD, the Industrial Development Organization (UNIDO), the International Monetary Fund/World Bank, and the United Nations in New York. In addition, the Group has constituted itself at the Food and Agriculture Organization of the United Nations in Rome, the United Nations Educational, Scientific and Cultural Organization in Paris, the International Atomic Energy Agency in Vienna, the United Nations Environment Programme in Nairobi, and, since 1975, at virtually all global United Nations conferences. In these latter fora, however, the Group of 77 has not (yet) acquired the organizational sophistication and permanence that characterize its presence at the main foci of its activities. In the case of the global conferences, in any event, its work is entirely of an *ad hoc* nature.[23] Nevertheless, the concerns of the Group of 77 now influence nearly all considerations of international economic issues in the United Nations system.

To illustrate the workings of the Group of 77, its evolution at one of its main foci, the United Nations in New York, will be described in detail below. The United Nations in New York has been chosen because—as will be argued below—the centre of gravity of the Group of 77 appears to be moving from Geneva to New York.

The 1974 Sixth Special Session of the United Nations General Assembly was the great divide for the activities of the Group of 77 in the United Nations in New York. Before that year, the Group's profile was very low. Only with the Sixth

Special Session did the Group of 77 begin to become a well-organized negotiating agent.

(*a*) *The ascendancy of the Group of 77 and the establishment of the Group of 27*

With the politicization of the development question in the early 1970s, the meetings of the Group of 77 became more frequent. And, characteristically, it was an economic event—or, more precisely, a political—economy one—that galvanized the regions and led to the emergence of an active Group of 77 in the United Nations in New York: the 1974 Sixth Special Session of the General Assembly. The session itself did not owe its origin to the activities of the Group of 77, but rather to those of the Non-Aligned Countries. But once the Non-Aligned Countries had ensured that the session would take place, it became the responsibility of the Group of 77 to prepare for it substantively. The time available for this task was very short, but the Fourth Conference of Heads of State or Government of Non-Aligned Countries—which had taken place a few months earlier (September 1973) and had produced the first comprehensive economic programme of the movement (a programme carried by a solid consensus)—provided the Group of 77 with an excellent basis for its work.[24]

To prepare the Sixth Special Session, the plenary of the Group of 77 decided, on 8 February 1974, to establish an open-ended Group of 30 (10 countries from each region). Since most countries attended the meetings of the Group of 30, this body quickly became too cumbersome for drafting work. Hence an open-ended Group of 6 was created on 9 March 1974. It was this Group that drafted the "Declaration of the Establishment of the New International Economic Order" and the "Programme of Action on the Establishment of the New International Economic Order" which in turn became the basis for the final resolutions of the Special Session, adopted by consensus—even though with strong reservations on the part of the developed market economies—on 1 May 1974. The negotiations concerning the final documents, however, were undertaken by a Negotiating Group that had been formed on

26 April, *i.e.*, less than one week before the end of the Sixth Special Session.

In the same year, the Group of 77 in New York had to pass another major test in steering the Charter of Economic Rights and Duties of States to adoption. During UNCTAD's 1972 session, the President of Mexico, Luis Echeverria, had proposed the elaboration of such a charter. An UNCTAD Working Group on the Charter of Economic Rights and Duties of States was established[25] which held four sessions between February 1973 and June 1974.[26] Since the Working Group could not reach agreement on a complete text, its final report identified various alternatives for those paragraphs of the draft Charter on which agreement had not been secured. Although informal consultations began soon after the fourth session of the UNCTAD Working Group, the main efforts were undertaken just before the Charter was taken up by the Second Committee of the Twenty-Ninth Regular Session of the General Assembly in November 1974. The Group of 77 in New York (under strong leadership of Mexico, which was then the co-ordinator of the Group) conducted a series of informal negotiations, especially with the Western European and Other States Group, to prepare an agreed text for the Committee. When these negotiations failed to lead to the desired result, the Group of 77 drew up a draft Charter on the basis of all agreed paragraphs of the final report of the Working Group and, in cases where consensus had been missing, on the basis of the alternatives proposed by the Group of 77. (The Group tried to incorporate, wherever possible, the points of view expressed by the developed countries). This text as a whole, which had been amended further in the course of negotiations, was introduced in the Second Committee on 27 November 1974 and was adopted on 6 December 1974 by a roll-call vote of 115 to 6, with 10 abstentions. The General Assembly adopted the Charter as a whole on 12 December 1974, by a vote of 120 to 6, with 10 abstentions.

The Charter of Economic Rights and Duties had hardly been adopted when the preparations for the Seventh Special Session of the General Assembly began. On the basis of its experience during the Sixth Special Session, the Group of 77 decided, prior to the first session of the Preparatory Committee

for the Special Session in March 1975, to set up a working group consisting of 27 countries (9 from each region) to undertake the necessary preparatory work. This "Group of 27", as it became known, drafted first a position paper of the developing countries and then a detailed informal working paper for negotiating purposes. The latter paper was the basis for the actual negotiations during the Special Session. In its re-negotiated form it became the resolution on "Development and International Economic Co-operation" which was adopted by consensus (and without major reservations) by the Seventh Special Session on 16 September 1975.

After the Seventh Special Session, the activities of the Group of 77 in New York expanded rapidly.[27] Most of them required preparations, and the need for a smaller body to undertake the preparatory work became quickly apparent. Since the smooth negotiations during the Seventh Special Session had demonstrated the usefulness and effectiveness of the Group of 27, it was only natural that it should be entrusted with this work. The Group of 27 thus became a continuing working group of the Group of 77.

From the outset, participation in the Group of 27 was open to any member of the Group of 77. The original membership thus lost its importance, although the formal membership of the Group never changed. Rather, both which and how many countries attended a particular meeting came to depend on the subject matter under consideration. Since the Group of 27, which normally meets at the senior officials level, acts only on the instructions of the plenary, each country is informed about the work of the Group and hence can participate in it. The materials (mostly draft resolutions) prepared by the Group are submitted to the plenary for approval or, if no consensus can be achieved, for further discussion and ultimate arbitration. (The plenary ordinarily meets at the ambassadorial level.) Naturally, the opinions of the Group of 27 can be overruled by the plenary and materials referred back to it for revisions or further work. This is particularly likely to happen if some interested parties have not participated in the initial work. As a rule, however, the proposals of the Group of 27 are accepted by the Group as a whole. All meetings of the Group of 27, like those of the plenary, are chaired by the co-ordinator

country, even if that country is not a member of the original 27. Naturally, all decisions are taken by consensus.

Thus, in the absence of a bureau[28] and of strong regional groups, the Group of 27 has come in the space of a few years to assume the functions of a permanent steering and drafting committee of the Group of 77. In carrying out the mandate given to it by the plenary, it prepares and clears a growing number of proposals and, in fact, does most of the substantive work of the Group of 77, including the preparatory work for ministerial-level meetings in New York. It even creates, as the need arises, smaller *ad hoc* working groups. During sessions of the General Assembly, and particularly at their beginning, the Group of 27 meets almost daily ; the plenary may, during certain periods, meet almost as often. In 1979, for instance, there were 241 meetings of the Group of 77 and of its sub-groups (*i.e.*, mostly of the Group of 27)—compared to an average of 33 meetings during the years 1970-1972. Between sessions, the two Groups meet whenever the need arises, normally in order to prepare for an impending event in the United Nations. Their activities still centre on the economic questions discussed in the Second Committee of the General Assembly. But the Group of 77 is also beginning to direct its attention to administrative and budgetary questions (Fifth Committee), because of the financial implications of many resolutions ; social, humanitarian and cultural matters (Third Committee), especially because of the social dimension of development ; some legal issues (Sixth Committee), particularly those touching the legal dimension of the NIEO ; and some political issues (Special Political Committee), and most notably those relating to information politics and the establishment of the New International Information Order.[29]

The Group of 27 shares its management function with the co-ordinator of the Group of 77 in New York who, until the institutionalization of the Group of 27, was solely responsible for this function. The role of the co-ordinator in New York is the same as that of the co-ordinator in Geneva, except that there are no regional co-ordinators with whom responsibilities could be shared. On the other hand, the Group of 77 is nowhere better represented than in New York : in 1980, 116 of its 122 members had diplomatic missions accredited to the

United Nations. However, 30 per cent of the missions had a professional staff of five or fewer persons, and only 4 per cent of them had a staff of 21 or more persons. This compares with, respectively, 11 and 22 per cent for the Western European and Other States Group and 10 and 20 per cent for the Eastern European States Group. In addition, the stability of tenure of the chief negotiators, the permanent representatives, was not very high : in 1980, almost half of them had been accredited to the United Nations for one year or less. Only one quarter of the permanent representatives of the Western European and Other States Group on the other hand, had been accredited for so short a time.

The institution of the co-ordinator dates back to the 1960s ; but it is only since 1974, with the increasing volume of work before the Group of 77, that it has acquired real weight. The office of the co-ordinator rotates annually among the three regions. The co-ordinator country is chosen after informal consultations on the basis of a country's identification with the work of the Group of 77 and its capacity to fulfil the function for an entire year. It has now become customary for the formal designation of the co-ordinator to be done by the meeting of the ministers for foreign affairs of the Group of 77, which has been held since 1977 at the end of September (*i.e.*, at the commencement of the General Assembly). The co-ordinator assumes office on the day after the meeting.

As a result of the increased activities and better organization of the Group in New York, an increasing number of resolutions have been sponsored by the Group of 77. A conscious effort is made, however, to limit the topics to be dealt with by the Group to the main issues relating to North-South relations and the establishment of the NIEO, *i.e.*, to those topics that are of concern to the Group as a whole and on which unity can be achieved and maintained.[30] Other issues are left to individual countries or groups of countries. The Group of 27 is, therefore, convened at the beginning of a session of the General Assembly to identify the areas that should constitute, at that session, the Group's major foci of attention.

But this effort to confine the work of the Group of 77 to key issues, and hence to avoid an overcrowding of its agenda, does not always succeed to the extent desired. For one thing, since,

the various aspects of the development task are increasingly seen in relation to one another and many are, in fact, highly interrelated, it is difficult to determine what should be of concern to the Group as a whole and what not. For another, each country or group of countries tends to seek the support of the entire Group for its projects because such support provides it with greater bargaining power in the subsequent search for consensus, or at least assures it a majority in the competent organs of the United Nations. (A country's ability to convince the rest of the Group of the importance of its project is, therefore, an important variable in the determination of the agenda.) As a result, the question of what precisely constitutes a matter for the agenda of the Group of 77 and what does not has no definite answer and the set of matters on the Group's agenda tends to expand continuously. The effect of this expansion is that the Group of 77, *qua* group, is now participating in all major economic discussions as well as in a growing number of related questions in the United Nations in New York. This represents a profound change in the conduct of business in the General Assembly and it may lead to a transformation of all regional groups into co-ordinating bodies for substantive questions, along the lines already familiar from UNCTAD.

(*b*) *Towards global negotiations*

Since the second half of 1977, co-ordination at the ministerial level has been added to the existing organizational structure of the Group of 77 and this has made the Group's activities more political in nature. The beginning was made by the ministers for Foreign Affairs of the Group of 77 in Fall 1977, with the first in a series of meetings now convened regularly at the commencement of the General Assembly.

The first of these meetings was the result of several developments. Most important among them were the efforts of the co-ordinator country, Pakistan, to obtain a greater institutionalization of the movement and the outcome of the Paris Conference on International Economic Co-operation. Pakistan, not a member of the non-aligned movement and hence interested in a strong Group of 77, was the co-ordinator country of the Group of 77

in New York during the period 1976-77 and it vigorously pursued the policy of strengthening the institutional infrastructure of the Group of 77. During the September 1976 Mexico City Conference on Economic Co-operation among Developing Countries, Pakistan, in line with this objective, had pressed strongly for a summit of third World leaders. When this initiative failed, Pakistan pursued the same objective at lower levels. Thus, when the Paris Conference failed to hold its concluding ministerial meeting as originally scheduled, in the middle of December 1976, a meeting of the plenary of the Group of 77 in New York was called. It discussed this development and issued a communique embodying its conclusions. Among them it expressed the desire "to consider convening a meeting of the developing countries at an appropriately high political level to assess the situation and to co-ordinate their strategy."[31] The occasion for this meeting, at the level of ministers for foreign affairs, came in September of the next year, when both the Paris Conference and the resumed Thirty-First Regular Session of the General Assembly failed to reach any agreement.[32] As in the case of the Extraordinary Conferences of Ministers of Foreign Affairs of Non-Aligned Countries, the presence of many high-level representatives from the national capitals at the beginning of the General Assembly facilitates greatly the convening of meetings of the Ministers for Foreign Affairs of the Group of 77.

Since 1977, the meetings of the ministers of foreign affairs of the Group of 77 have become a regular institution of the Group. They are held at the end of the co-ordinator's term and at the beginning of the General Assembly. Accordingly, the ministers begin by designating a new co-ordinator country. Then they review the preceding year's developments which are of primary concern to developing countries and provide political impetus and overall direction to the Group's future work, especially with respect to the principal economic issues on the agenda of the General Assembly.

Thus, at their first meeting on 29 September 1977, the foreign ministers took note of the unsatisfactory negotiations at the Paris Conference and the resumed Thirty-First Regular Session of the General Assembly and resolved that all negotiations of a global nature of the NIEO should take place in the

fully representative forum of the United Nations.[33] Accordingly, the ministers suggested that the "General Assembly should provide at its current and future sessions guidelines for the conduct of negotiations in the appropriate bodies within the United Nations system, with a view to reaching concrete and positive results within specific time-frames" and asked that "a special session of the General Assembly" be convened in 1980 (the later Eleventh Special Session of the General Assembly, held between the 25th of August and the 15th of September 1980 in New York) in order

> to assess the progress made in the various forums of the United Nations system in the establishment of the New International Economic Order and, in the light of that assessment, to take appropriate action for further promotion of the development of developing countries and international economic co-operation, including the adoption of the new international development strategy.[34]

These considerations and recommendations led, on 19 December 1977, to the adoption of General Assembly resolution 32/174, creating the "Committee Established under General Assembly Resolution 32/174". The Committee became known as the "Committee of the Whole" because its deliberations were open to all States. Between February 1978 and August 1980, it met between the regular sessions of the General Assembly to assist the Assembly by, *inter alia*,

> . . . overseeing and monitoring the implementation of decisions and arrangements reached in the negotiations on the establishment of the new international economic order in the appropriate bodies of the United Nations system.[35]

In establishing the Committee of the Whole, the General Assembly explicitly reaffirmed that "all negotiations of a global nature relating to the establishment of the new international economic order should take place within the framework of the United Nations system" and further underlined its concern that, in these negotiations, "the international community should, with a sense of urgency, make new and resolute efforts to secure

positive and concrete results within agreed and specific time-frames."[36] At the same time, and as a final reference point for the work of the Committee of the Whole, the General Assembly decided to convene a special session on development in August 1980. With the establishment of the Committee of the Whole, the Group of 77 had reinstated economic negotiations as one of the central tasks of the General Assembly. At the same time, the Group had succeeded in creating a forum for considering the whole range of North-South issues in an integrated and politically aware fashion ; and it had made a first step towards creating a permanent forum at the highest level for negotiating with and putting pressure on the developed countries in the matter of the establishment on the NIEO.

To ensure that high-level negotiations continue after the Eleventh Special Session and after the adoption of the international Development Strategy for the Third United Nations Development Decade, the 1979 Sixth Conferenee of Heads of State or Government of Non-Aligned Countries in Havana (acting upon the recommendation of its Co-ordinating Bureau at the Ministerial Level[37]) endorsed a proposal to launch, at the Eleventh Special Session.

> . . .a round of global and sustained negotiations on international economic co-operation for development, such negotiations being action-oriented, allowing for an integrated approach to the main issues involved, proceeding simultaneously on different planes and being open to universal participation.[38]

The Group of 77 seized upon this proposal without delay and introduced it at the next session of the Committee of the Whole in virtually identical language.[39] Two weeks later, the Ministers for Foreign Affairs lent their strong support to the proposal.[40] The General Assembly subsequently adopted a resolution on the subject, instructing the Committee of the Whole to perform the functions of a preparatory committee and to submit to the Eleventh Special Session its final report containing recommendations on the establishment of the global negotiations.[41]

In March 1980, then ministers of the Group of 77 met in

New York to adopt a draft agenda for the global round of negotiations and to specify their recommendations on procedures and a suitable time-frame. Although neither the Committee of the Whole nor the Preparatory Committee for the New International Development strategy succeeded in finishing its work, the Eleventh Special Session of the General Assembly—which was preceded by another preparatory ministerial-level meeting of the Group of 77 in New York in August 1980—was held as planned. Negotiations at that Session proved, however, very protracted and, after two extensions of the Session, only one of its twin purposes could be achieved ; consensus on the text of the New International Development Strategy for the Third United Nations Development Decade. But agreement was reached neither on the modalities nor the agenda of the global negotiations. Hence the documents relevant to this set of issues were transmitted to the General Assembly at its Thirty-Fifth Regular Session for further deliberations.[42]

These events form an unprecedented series of almost continuous high-level North-South negotiations on the establishment of the New International Economic Order. They reflect the urgency with which the developing countries regard the need to put the NIEO Programme into effect, they ensure that the programme receives the proper attention at the proper level, and they are designed to generate the necessary pressure to expedite its implementation. As a result, the development task has become a major concern of the General Assembly, whose "central role. . . as the supreme organ of the United Nations system in the economic and social fields"[43] was explicitly emphasized by the Ministers for Foreign Affairs of the Group of 77 at their 1979 meeting. It is an organ which is attractive to the developing countries not only because they are in the majority in it but also because its almost universal membership makes it a fully representative forum that allows equal participation of all countries in the decision-making process.

The meetings of the ministers for foreign affairs are a natural development ; in a sense, they resemble the preparatory ministerial-level meetings of the Group of 77 in the context of UNCTAD and UNIDO, even though they are nowhere near as elaborated. They also indicate that the development task has become thoroughly politicized : the ministers for foreign

affairs—not those for economics, finance or commerce—provide the guidance, and this is done in reference to the United Nations General Assembly, an organ at the highest political level.

These rapidly unfolding events may lead to a fundamental change in the multi-central character of the Group of 77. Ministerial-level meetings are the supreme organs of the Group of 77. Such meetings are convened only once every three years to prepare for UNCTAD sessions and will be convened once every two years to prepare for UNIDO General Conferences. The General Assembly, on the other hand, is convened every year, as are now the meetings of the foreign ministers of the Group of 77. These latter are further supplemented by meetings of other ministers in connection with the global negotiations. It is logical, therefore, that most lower-level bodies that meet between ministerial conferences report to the Group of 77 in New York. Besides, the global conferences convened by the General Assembly are often prepared for by the Group of 77 in New York, a responsibility that gives it additional influence on a wide range of topics.[44]

Moreover, if the Group of 77 should, after all, establish a secretariat (an action that may in any event be unavoidable in the long run), it is now very likely to be located in New York and not in Geneva—a step that would further strengthen the position of the New York Group and would, in itself, be an indication of the changing importance of the various centres of the Group of 77. In any event, the annual rotation of the office of the co-ordinator provides the Group of 77 in New York with greater stability of leadership and the stronger presence of the Group in terms of the number and strength of its diplomatic missions in New York gives it better representation and better staff resources than in Geneva. Finally, if the global negotiations are conducted, as the developing countries desire, in a centralized fashion in the framework of a United Nations conference in New York, the Group of 77 in New York would automatically assume a supreme co-ordinating function. (Such co-ordination is, in any case, necessary because it has to be ensured that the Group of 77 moves in the same direction in all fora.) And if the agenda of the negotiations range as broadly as the developing countries propose, the Group in New

York would effectively take a leading role in articulating and aggregating the Third World's collective economic interest on all major North-South issues and in representing it in the negotiations with the developed countries.

As UNCTAD loses its supremacy in development questions[45] and is increasingly becoming a technical negotiating forum whose products are legal or quasi-legal instruments,[46] the focus for the formulation of policies in this area and possibly even the focus of all the activities of the Group of 77 may be shifting to New York, from where the Group may well receive its overall direction in the future. Even if this shift should be accompanied by some tensions between New York and the other centres of the Group of 77 (and especially Geneva), it may well be a desirable evolution because progress may only be achievable if the development task remains in the centre of political awareness and is continuously pressed at the highest political level and if its pursuit is closely co-ordinated with the non-aligned movement whose political support continues to be a necessity.

IV. Conclusions

North-South negotiations have experienced an extraordinary evolution. They began in 1964 in the specialized forum of UNCTAD and, from there, spread to the equally specialized fora of the IMF and the World Bank as well as UNIDO. In 1974, they were elevated to the political level of the General Assembly, albeit only for the limited periods of the Regular Sessions and the Sixth and Seventh Special Sessions of the General Assembly. With the Paris Conference of 1975-1977 followed an experiment in negotiating on the main development issues in a forum of restricted membership outside the United Nations system. When this failed to have the desired results, the negotiations moved back into the United Nations system and, with the Committee of the Whole of the General Assembly, became institutionalized in periodic meetings held in inter-session periods. Finally, although the Eleventh Special Session did not achieve all its objectives, it is only a question of time, before sustained global negotiations are launched which will deal in a continuous and centralized fashion with the whole

range of development issues at the level of the General Assembly. Work in specialized fora will, of course, continue and care has to be taken that progress being made there is not jeopardized. Together, these events represent a new stage in the long and arduous process of accelerating development through the establishment of the New International Economic Order.

The driving force behind this evolution is the well-organized Group of 77. With the political backing of the Non-Aligned Countries it has changed the status of the development task in a singularly rapid succession of conferences : from being considered only in specialized fora, it has come to be the dominant political-economy item on the agenda of the supreme organ of the United Nations system, the General Assembly.

The only higher level of mobilization, politicization, and pressure that the development task can reach is that of the level of heads of State or government. If the present arrangements do not lead relatively soon to substantial progress—the past few years have shown that events have to move at an accelerated pace—such a final upgrading may well become inevitable. And if the events of the immediate past are a guide, a world congress of heads of State or government on development would have to be open to all heads of State or government ; would have to deal with the entire range of development issues in an integrated manner ; would have to agree on firm time-frames ; would have to be action-oriented towards structural changes ; would have to involve binding commitments ; and would have to be convened regularly.

Given the dimensions and urgency of the development task, there may be no viable alternative to global negotiations at the highest level. And if negotiations do move to this level, there will be no peaceful alternative to substantial progress in them.

References

1. General Assembly resolution 1710/XVI/of 19 December 1961.
2. General Assembly resolution 1707/XVI/of 19 December 1961.
3. For the text of the "Cairo Declaration of Developing Countries", see Odette Jankowitsch and Karl P. Sauvant (eds.), *The Third World without Superpowers : The Collected Documents of Non-Aligned Countries*, Dobbs Ferry, N.Y., Oceana, 1978, Vol. 1, pp. 72-75, hereinafter cited as Jankowitsch and Sauvant. This meeting was

the first attempt of the developing countries to co-ordinate their international development policies in the United Nations.

4. See Economic and Social Council resolution 917/XXXIV/of 3 August 1962 and General Assembly resolution 1785/XVII/of 8 December 1962.
5. Contained in Karl P. Sauvant (ed.), *The Third World without Superpowers*, 2nd Ser., *The Collected Documents of the Group of 77*, Dobbs Ferry, N.Y., Oceana, 1981, 6 vols., hereinafter cited as Sauvant. (The documents of the Group of 77, as well as those of the United Nations meetings for which were an input, are contained in these volumes ; no specific reference is, therefore, made to them each time they are mentioned.)
6. *Ibid.*, document I.C. l.a. (Since this paper was written when the collection of documents was still under preparation, no page numbers can be given for the quotes.)
7. Through resolution 1995/XIX/. For membership, principal functions, organization, etc., of UNCTAD, see that resolution.
8. Including the Palestine Liberation Organization, the only non-State member of the Group of 77.
9. The literature on the Group of 77 is still very scarce. One of the best analyses is still contained in Bransliav Gosovic, *UNCTAD : Conflict and Compromise. The Third World's Quest for an Equitable World Economic Order through the United Nations*, Leiden, Sijthoff, 1972. For a recent perceptive analysis of the Group of 77 and the non-aligned movement and their role in the main international economic conferences dealing with the New International Economic Order see Robert A. Mortimer, *The Third World Coalition in International Politics*, New York, Praeger, 1980.
10. In Sauvant, document V D. 3.
11. *Ibid.*
12. See Co-ordinating Committee, "Ministerial Mission" and First Ministerial Meeting of the Group of 77, "Charter of Algiers", Part III, in Sauvant, documents II.B. 3 and II.D. 7, respectively.
13. For an elaboration, see Karl P. Sauvant, "The Origins of the NIEO Discussions," in Karl P. Sauvant (ed.), *Changing Priorities on the International Agenda : The New International Economic Order*, Elmsford, N.Y., Pergamon, 1981.
14. Apart from the Latin American States, only the following developing countries took part in the Bretton Woods Conference : Egypt, Ethiopia, India, Iran, Iraq, Liberia and the Philippines.
15. See Odette Jankowitsch and Karl P. Sauvant, "The Initiating Role of the Non-Aligned Countries," in *ibid.* This observation should not be taken to slight the political purpose and function of the non-aligned movement ; it is intended only to point out that the movement had also acquired an equally important economic function and that this change proved to be of crucial importance for making the development issue a priority item on the international agenda.

16. See, *e.g.*, the "Final Communique" adopted at the 1978 Havana meeting of the Co-ordinating Bureau of the Non-Aligned Countries at the Ministerial Level, reprinted in Jankowitsch and Sauvant, Vol. 5.
17. General Assembly resolutions 3201/S-VI/ and 3202/S-VI/. Together with the "Charter of Economic Rights and Duties of States", adopted 12 December 1974 by the Twenty-ninth Regular Session of the General Assembly as resolution 3281/XXIX/, and resolution 3362/S-VII/, entitled "Development and International Economic Co-operation", adopted on 16 September 1975 by the Seventh Special Session of the General Assembly, these resolutions lay the foundations of the programme for the New International Economic Order. For an exposition of this programme, see Karl P. Sauvant, "The NIEO Programme: Reasons, Proposals and Progress", and for its criticism, Rudiger von Wechmar, "The Position of the Industrialized Countries," both in Sauvant, *Changing Priorities on the International Agenda, op. cit.*
18. Especially in the framework of the "Action Programme for Economic Co-operation", adopted by the 1972 Georgetown Third Conference of Ministers of Foreign Affairs of Non-Aligned Countries, as a consequence of which Co-ordinator Countries were designated for 18 fields of activity. Important also are a number of the follow-up activities to the Conference of Developing Countries on Raw Materials, which was held in Dakar from the 4th to the 8th of February 1975; although the Dakar Conference was convened by the Non-Aligned Countries, it was explicitly designed to include all developing countries. For the relevant documents, see Jankowitsch and Sauvant.
19. J. Nyerere, as cited in Sauvant, document V.D. 3.
20. In other words, the oil-importing developing countries have nothing to gain from turning against OPEC since this would not affect the price of oil. Maintaining solidarity, on the other hand, combined with some pressure, could lead to some concessions by the OPEC countries (be it in the form of aid, special price arrangements, or both) and it strengthens the bargaining power of the oil-importing developing countries in their negotiations with the North.
21. J. Nyerere, as cited in Sauvant, document V.D. 3.
22. First Ministerial Meeting of the Group of 77, "Charter of Algiers", in Sauvant, document II.D. 7.
23. Although this work may well span several years and be of great importance to the conference. This is particularly the case for the Law of the Sea Conference.
24. See the "Economic Declaration" and the "Action Programme for Economic Co-operation", in Jankowitsch and Sauvant. On the relationship between the economic programme of the Non-Aligned Countries and that of the Sixth Special Session, see Jankowitsch and

Sauvant, "The Initiating Role of the Non-Aligned Countries," in Sauvant, *Changing Priorities on the International Agenda, op. cit.*

25. UNCTAD resolution 45/III/. For a discussion of the Charter, see Robert F. Meagher, *An International Redistribution of Wealth and Power : A Study of the Charter of Economic Rights and Duties of States*, Elmsford, N.Y., Pergamon, 1979. The drafting process is described in detail in Romeo Flores Caballero, "La elaboracion de la Carta : Antecendentes de un nuevo order international", in Kurt Waldheim *et al*, *Justicia economica internacional*, Mexico City, Fondo de Cultura Economico, 1976, pp. 25-80.
26. The reports of the Working Group on its four sessions are contained in documents TD/B/AC. 12/1 of 6 March 1973, TD/B/AC. 12/2 and Add. 1 of 8 and 9 August 1973, TD/B/AC. 12/3 of 8 March 1974, and TD/B/AC. 12/4 and Corr. 1 of 1 and 21 August 1974.
27. After the Special Session, the Group of 77 had immediately to prepare itself for the General Assembly, where it increasingly introduced resolutions under its name.
28 Neither the Group of 77 nor the Group of 27 in New York has a bureau or, for that matter, formal rules of procedure. (Presumably, the rules of procedure of the Ministerial Meetings in preparation of UNCTAD Sessions apply.)
29. The focal point of discussion for this question is UNESCO, where the Non-Aligned Countries have assumed a leading role.
30. For instance, during the Thirty-Fourth Regular Session of the General Assembly, the Group of 27 decided, at the beginning of October 1979, to attach special importance to the following topics from the agenda of the Second Committee : the establishment, by UNIDO. of a network for the exchange of technological information and an industrial and technological information bank ; co-operation in the field of the environment concerning natural resources shared by two or more States ; desertification ; food problems ; habitat ; technical co-operation among developing countries ; the acceleration of the transfer of real resources to developing countries ; the United Nations Conference on New and Renewable Sources of Energy ; UNCTAD ; the United Nations Conference on Science and Technology for Development ; the Report of the Committee of the Whole and the global negotiations ; the New International Development Strategy ; the preparations for the Eleventh Special Session ; multilateral development assistance for exploration of natural resources ; economic co-operation among developing countries ; the transport and communications decade in Africa ; the restructuring of the economic and social sectors of the United Nations system ; United Nations Development Programme ; transnational corporations ; and the question of special categories of countries. For a number of these items, drafting groups were established to prepare draft resolutions for the consideration of the Group of 27 and the final approval of the Group of 77.
31. The Group of 77 in the United Nations, New York, "Com-

munique", in Sauvant, document XII.A. 2.a.aa. This was the first formal public statement by the plenary of the Group of 77 in New York.

32. Thus, the first Meeting of Ministers for Foreign Affairs of the Group of 77, which only lasted one day, was a compromise gesture towards Pakistan. Pakistan remained the co-ordinator of the Group of 77 in New York until the end of September in order to be able to chair this meeting.
33. During the next year's gathering, the same view was underlined again by the ministers and the reasons for it were even more explicit : "In this regard, and reaffirming the need for equal participation of all countries in the decision-making process, they emphasize the central role of the General Assembly." See Ministers for Foreign Affairs of the Group of 77, Second Meeting "Declaration," in Sauvant document X.B. 2.a.
34. Ministers for Foreign Affairs of the Group of 77, First Meeting, "Declaration", in *ibid.*, document X.B. 1.a.
35. General Assembly resolution 32/174 of 19 December 1977.
36. *Ibid.*
37. See Jankowitsch and Sauvant, vol. 5.
38. *Ibid.*, Economic Resolution No. 9.
39. See, draft resolution A/AC. 191/L. 4 of 13 September 1979. The summit of the Non-Aligned Countries had ended on 9 September 1979, the next meeting of the Committee of the Whole began on 10 September 1979.
40. Ministers for Foreign Affairs of the Group of 77, Third Meeting, "Declaration", in Sauvant, document X.B. 3.a.
41. General Assembly resolutions 34/138 and 34/139 of 14 December 1979.
42. By decision S-11/24 of 15 September 1980 of the Eleventh Special Session of the General Assembly. Because of the failure to launch the global negotiations, the New International Development Strategy was not formally adopted by that Session.
43. Ministers for Foreign Affairs of the Group of 77, Third Meeting, "Declaration", in Sauvant, document X B. 3.a.
44. The developing countries' draft programme of action on science and technology for development for the United Nations Conference on Science and Technology for Development (held in Vienna from the 20th to the 31st of August 1979), for instance, was prepared by the Group of 77 in New York.
45. This is underscored by the failure of UNCTAD, at its fifth session in Manila in May-June 1979, to be recognized as *the* principal instrument of the General Assembly for international economic negotiations relating to the establishment of the NIEO and by its failure to formulate an agreed input into the discussions for the International Development Strategy for the Third United Nations Development Decade.
46. See, for instance, the instruments pertaining to multimodule transport, restrictive business practices, the Common Fund, rubber, and the transfer of technology.

10

New International Economic Order and Contemporary World Economic Scene

SUNANDA SEN

Of late, no single proposal for international economic reform has received as much attention as the Programme of Action suggested under the New International Economic Order (NIEO). The programme, as initiated by the Non-Aligned Nations in their 1973 Summit meet at Algeria, was later endorsed by the Group of Seventyseven at UNCTAD 1973, and eventually adopted by the UN in its Special Session of the General Assembly which was held in spring 1974. The moves were possibly precipitated by the spurt in oil prices after October 1973. Widespread concern has been expressed since then from different quarters—both official and private in nature—regarding the future of the NIEO proposals. The above appears to have little impact on the course of events when contrasted with the very little progress that has been achieved in the implementation of the reform proposals.

The present Chapter seeks to offer a commentary on the very limited progress achieved so far in implementing the NIEO proposals. The analysis, as developed in the following pages, is based on an evaluation of the workability and feasibility of the reform proposals in the contemporary world. The conclusions

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arrived at suggest the improbability of world-scale reform of the international economic relations through partial reforms as envisaged under the NIEO.

The next section consists of an enumeration of the NIEO proposals with an account of the specific historical contexts that anteceded their formulation. This is followed by an assessment of the North-South dialogue, with specific reference to (*a*) the actual developments in the world economy, and (*b*) the attitude of both the North and the South towards the actual implementation of the proposals. As may be anticipated, the observations strengthen the conviction that the proposals remain rather inoperative, in the absence of commitments on the part of the nation States which are internationally binding. Thus, despite the remedial proposals and their reiterations, the national bourgeois goals have continued to take precedence over the 'norms' of behaviour stipulated under the NIEO—a fact which reveals the illusions underlying the prospects of reforming the world economic order through similar measures.

As pointed out at the beginning of the Chapter, the evolution of the NIEO proposals[1] can be traced back to a certain awakening of the LDCs during the neo-colonial period. The articulation was in the form of a set of demands felt necessary by these nations in the face of difficulties they experienced as trading partners to the developed nations. Thus the ECLA group came out with proposals for structuralist reforms. These got some attention as the United Nations made gestures to launch a 'Development Decade' with a resolution adopted in its General Assembly of 1962. Specialised international bodies such as the UNCTAD and its offshoot, the group of 77, came up during the following few years. However, the concern expressed by similar bodies, over the shrinking LDC share in the world market and the adverse terms of such trade continued to co-exist with the dominance if not the revival of protectionist trends. Proposals for a more thoroughgoing international reform, while mooted, were not launched before spring of 1974 when the UN General Assembly formally endorsed the NIEO 'Programme of Action'. The Programme was sponsored earlier both by the non-aligned countries in their Summit meet at Algeria (September 1973) and by the Group of 77 at its annual general meeting in 1973 and pitted against the opposition by

UK, USA, West Germany, Belgium, Luxemburg and Denmark. The Programme was eventually endorsed by a majority of nations in the UN Assembly. The opposition, however, reflected very well the manner in which the North looked at the NIEO proposals from its very beginning. In spite of the concern expressed by the South, such action actually hardened over time, as is evident from the rejectionist moves the North seems to have made in its recent deliberations at the Lima Convention or in the UNIDO resolution of 1975.

The different aspects of the North-South dialogue, as reappeared under the NIEO Programme of Action, covered issues which are identifiable under the following five heads:

(*a*) Protection in general (both old and new), and tariff-liberalisation measures;
(*b*) Commodity Agreements as measures for price stabilisation;
(*c*) Official Aid as a form of resource transfer;
(*d*) TNCs in terms of a possible code of conduct to orient their operations; and
(*e*) International monetary reforms.

The first two items were dearly related to the *demands* put forth by South by way of reforming the prevailing pattern of world trade: First, by removing the existing tariff and non-tariff barriers in the North which generally prevented the entry of manufacturing exports from the South. And second, by minimising the variations in both prices and quantities of the primary goods exported by the South. The third proposal, connected with official aid, insisted on a rise in the volume of concessional aid to the South—to a level where the aggregate developmental assistance constituted at least 0.7 per cent of GNP in the North. In addition, such loans, taken together with private assistance should not, as was urged upon, fall below 1 per cent of such GNP in the North. Arguments for debt cancellation, financing of oil and food credit, and wider access, in general, to international capital markets constituted some further demands for a more even distribution of world's resources. As for the set of demands relating to the TNCs they stipulated (as measures to minimise the possible unfavourable repercussions of their working in the South) a removal of all legal restrictions relating to an expropriation of foreign capital

by the host governments. Such proposals also demanded a closer surveillance of TNCs in a manner which would suit the interests of the latter government in regard to the practices of the multinationals on technology transfer, patent laws and exports of manufactures (produced and marketed by these organisations) from the South. Lastly the NIEO envisaged a series of international monetary adjustments or reforms as would eventually enable the South to elicit a larger share of the world's monetary resources, both by means of a wider participation in the management of such funds as are internationally available and by initiating a set of thoroughgoing reforms in the international monetary system.

Refrom proposals under the NIEO were *rejected* by the North on the following two grounds: (*a*) An apprehension on their part that such arrangements might encourage formation of producers' cartels around production and marketing of primary goods with repercussions similar to the hike in oil prices as happened through OPEC. (*b*) The argument was put forth that the 'norms' set under NIEO in regard to private capital might set in motion a pace of nationalisation and expropriation of foreign capital on the part of host nations—acts which, in the eyes of the North, were equivalent to an outright appropriation of property. Attempts were made by the North to isolate the poorer nations in the South by starting a dialogue with the richer nations in the OPEC-OECD talks held in Paris during 1975. The attempt, however, did not succeed[2] while the North-South dialogue reopened in December 1975 with a rather restricted participation from both sides. Thus a meeting took place between a Group of Nineteen nations from the South (including the OPEC and other semi-industrialised countries) and a Group of Eight comprising the more powerful nations in the North (including the United States, Japan, the EEC, Canada, Australia, Spain, Sweden and Switzerland).[3] No major accord could be reached, however, in the meeting, consequent to which United States and other major nations in the North started to change their attitude and strategy along new directions. Thus there emerged a new slogan 'Bring them into the System', which was felt somehow to be a more expedient path than the earlier 'rejectionist' moves. The latter, however, had been preceded by American moves, largely unsuccessful as noted

above, to achieve a differential policy towards the LDCs—based in turn on their assertion that the nations clubbed together as South have an element of heterogeneity among them. To recall, Ambassador Moynihan's deliberations in the spring of 1975 reflected the same thesis.[4] In a Trilateral Commission sponsored by three industrialised nations in the North, there actually was a suggestion in 1975 that the OECD should extend its membership to Brazil, Mexico and Saudi Arabia—the rich among the South. After 1975, the North was gradually reconciled to an idea of general equity among nations when it came to the question of *international* distribution of resources. The above, however, was soon combined by an insistence both from the individual donor nations and from their multination forums, that additional equity in *international* distribution of resources should desirably be linked to such equity as can be achieved in the *international* distribution.

Thus a slogan emerged for 'Global Equity' in terms of 'Basic Human Needs' and it even dominated the discussions of the Club of Rome, the Tinbergen Group on 'Reshaping the World Order' (RWO) and the Hammerskjold Foundation. The position taken by the North, as summed up very aptly by the last mentioned Foundation, demanded that "...Countries which do not respect human rights *should not* benefit from... transfers"[5] (*italics* added). A statement from Jimmy Carter, the Presidential candidate in 1975 similarly announced, in a similar spirit, that "...Americans were tired of taxing the poor of the rich countries in order to support the rich of the poor countries...."[6] Incidentally, such views on equity as distribution amounted to a position very different from the World Bank view on the problem which viewed equity as a non-poverty issue. Paying more attention to the real nature of the third-world polity and its elite-dominated ruling alliances, such position differed from the World Bank notion of a 'trickle-down' theory for growth.[7]

The expectations the South had been cherishing for an implementation of the redistributional norms, conceived under the NIEO Programme, remained unfulfilled as the North came forth with its reservations against an implementation of such proposals. The package of reforms finally adopted were rather *nationalistic* in spirit and had very little to do with questions

of equity *within* nations—as judged by standards of *absolute* income (and poverty) or by the structure of *relative* income inside the respective nations. Thus the NIEO did not contemplate a stress, as demanded by the North, on domestic equity as a criterion for the loan-worthiness of countries in the South. Nor did it initiate a set of reforms which would apportion a larger share of the world's resources to nations which were poorest in terms of GNP criterion—a demand which could never be articulated by such countries in the face of the 'laws' and 'norms' of the capitalist world market. Instead, emphasis was laid on bringing about the stipulated 'new order' where commodity and capital flows could work, *essentially through the market*, to the benefit of the nations *clubbed together* as South. Thus the aim was to implement the desired reforms through a reorganisation of the market. This was quite different from an *attitude* which might have necessitated a circumvention of the market forces—even to implement the same set of reforms.

There took place a gradual shift in the South's approach towards the NIEO as the initial dominance of the so-called 'radicals' in negotiations led way to a change in leadership in South with increased participations from the 'moderates' (which included the richer nations) and the 'poor'. Disparity in the growth performance of nations added to the heterogeneity of such nations and this was crucial in weakening the level of militancy in placing their charter of demands.) Thus, to the richer nations such as Brazil and Mexico, it was less purposive to fight for a more 'fair deal in capital movements for reasons which are rather obvious from the pattern of their growth performance and their open access to the international capital markets. Similarly, for reasons which were different, to the poorer nations even a partial implementation of the reform proposals would have meant a lot in terms of achieving a better share in the international division of labour. The result, as noted above, was a reduced level of militancy on the part of the South in demanding concessions from the North through the NIEO negotiations.

The outcome of the NIEO proposals, thwarted from the very beginning by a rather unfavourable attitude from the North, was further jeopardised by the developments in the world economy—both in the national growth rates and the global

protectionist trends. It is possible, on the basis of a survey of the pace of the reforms, to comment on the significance of the NIEO Programme on economic relations between nations.

The NIEO demands for a removal of protectionist barriers had, as their background, the frustrated and unsuccessful attempts of nations to achieve substantial tariff cuts at the various across-the-board negotiations. Thus, despite the four rounds of reciprocal tariff consultations during 1947-67, the LDCs came out with very little net gain from the GATT counter—as observed by an American observer having a considerable disapproval of all non-market distortions.[8] Tariff negotiations were subject to further setbacks, as Europe and the United States failed to agree on questions of 'tariff-escalation' and the residual structure of tariffs at the end of the reciprocal cuts. For the US, an early start in building tariff walls for the domestic industries and the existence of a large domestic market (for finished goods as well as for raw materials) together implied a situation in which its industries depended very little on imported raw material. Thus the country found it difficult to agree to a European 'formula' for 'depeaking', with suggestions for a cut in tariff rates to one-half of the prevailing rates whenever the latter exceeded the specified respective minimum rates of 10 per cent in the case of manufactures and 5 per cent in case of raw materials. The 'depeaking' formula was sponsored by the EEC which found the prevailing tariff escalation[9] in their domestic economics to have reached a stage where a sudden withdrawal (as under the US proposal of a flat 50 per cent reduction) was bound to have far-reaching consequences on the level of their domestic economic activity. Thus the European formula was bent on removing the discrepancies in the prevailing tariff structure—both between countries (keeping in view the higher level in the US), and between commodities (with higher rates, both nominal and effective, on finished goods under tariff-escalation). For the United States, however, the formula was unacceptable as it would have implied very little, if any, tariff cuts in Europe as the average level of duty on manufactures in Europe was lower than both the level in the United States and the specified minimum rate of 10 per cent. Further, the average duty on raw materials (imported) paid in Europe was often negligible. As viewed by the Americans, the

depeaking strategy would have left the effective protection rate untouched (or little reduced) in the EEC—coupled with drastic reductions in their own domestic economy. However, the US preference for across-the-board tariff negotiations—and more specifically for the Multilateral Tariff Negotiations (MTN) as negotiated through the Kennedy Round of the sixties and the Tokyo Round of more recent years—was not of much help to make a headway, for reasons which are obvious from our enumeration of a basic difference between Europe and the United States on questions of tariff structure and their reduction. Similarly, the EEC-led Generalised Scheme of Preferences (GSP) had a rather halting pace. The United States finally joined the scheme in 1974 when the scheme was very different from the original set of preferences negotiated.[10] There also took place a change in the US position regarding the MTN with its demand for elimination of *all* duties *below* 5 *per cent* and an equal percentage reduction of *all* duties *above that level.* The revised US proposal, however, was still different from the EEC position on depeaking which insisted on a cut proportional to the initial height of the tariff. Thus, in a hypothetical situation, with initial average tariff rates at 20 per cent for USA and 10 per cent for the EEC, the adjusted rates at the end of a 50 per cent cut would come down to 15 and 10 per cent under the EEC proposal whereas under the *new* US proposals they would have been reduced to 7.5 and 2.5 per cent, respectively.[11]

In retrospect, the various multinational negotiations on tariff reductions proved of very little consequence in terms of their overall repercussions on the protectionist tendencies in the North—of forms both old and new (non-tariff). In fact, the General Agreement on Trade and Tariffs (GATT), which happened to be the chief organisation for multilateral tariff negotiations, incorporated, from its very beginning, provisions by which the reciprocal trade liberalisation measures, despite their legal sanction, were least binding. Thus Escape Clauses were incorporated under various heads, rendering the liberalisation measures trivial. These exemptions to the tariff liberalisation measures applied to quotas on imports of agricultural items (Article XI) and to imports of manufacture involving "...cases of serious injury" (Article XIX)[12] However,

the invoking of Escape Clauses, in the view of one observer, was rather restricted since their "... interpretation was less strict than the language would suggest." The delays involved in legislative action thus led to situations where concessions for manufactures under Article XIX were often not asked for.[13] Failure to win Escape Clauses, however, led to a wider adoption of the non-tariff measures—especially on manufactures—say of the Voluntary Export Restraint (VER) variant.[14] These 'Orderly Market Arrangements' had implications for imports which were similar to those of import quotas. Thus the allocation of export quotas to individual nations, as under the VER, amounted to an implicit ceiling on the value/volume imported from specific sources. Widespread use of the VER amounted to a situation in which executive action, invoked to implement such non-tariff restrictions was effectively by-passing the GATT and similar other legislative actions against tariff restrictions on imports.

In the following pages we propose to have a closer look at the functioning of export-quotas for textiles. Those arrangements have been the most significant among the various VERs operative during the last two decades. Analysis of their performance would thus provide an approximate idea of the nature of the present-day protectionist trends. Also, it would provide an idea of the very limited impact, if at all, of the NIEO proposals in containing such tendencies. A short-term textile agreement (STA), arrived at in 1961, marked the beginning of the multination textile quota agreements. The latter was substituted by a long-term agreement (LTA) in 1962. Convenience of the exporting nations led to the conclusion of a long-term multifibre agreement (MFA) in 1969, which was extended by a five-year period in 1978. The importance of the non-tariff quantitative arrangements were rather evident in a US government press release that, in terms of its official commercial statistics, the country imported during 1971 \$4.1 billion worth of goods under Quantitative Restrictions and \$5.0 billion worth under VER. Of the latter, \$2.3 billion related to textiles and other fibres. Thus, textiles, paradoxically enough, turned out to be one of the most sensitive *and* effective area of protection—*both* for the developed and the less developed nations. Countries like the US and the EEC, which were at a fairly advanced

level of industrialisation were evidently showing a degree of concern which was similar to the attitude of the less developed nations when it came to questions of seeking protection for the domestic textile products. The stake, as far as the developed nations were concerned, can partly be explained by the following figures which suggest that, for EEC and USA, the respective annual averages for textiles imported on a *net* basis during 1975-78 were $1.4 billion and $2.7 billion.[15] Again, of the developed country imports which came from the LDCs textiles and clothing together comprised 36 per cent in the case of United States and 70 per cent in the case of EEC[16] between 1960 and 1974. During the same period, the figures for developed country trade in clothing changed, from an export surplus of $0.14 billion, to a $4.04 billion figure of net imports.[17] For trade in textiles as a whole, the developed nations maintained an export surplus over the period with actual value growing from a $0.94 billion in 1960 to $1.32 billion in 1974.

The developed nations thus proved to be rather significant as participants in the world textile market—both as export destinations and import sources. Given the nature of employment, wage and productivity trends in their own economies, there often emerged a 'pressure for protection'[18] in the labour-intensive sectors of such economies. Furthermore, as reported in a recent unofficial estimate, the textile and clothing industry in Europe recently has been subject to negligible or zero rates of growth with the number of jobs lost in such sectors between 1972 and 1979 being no less than 600 million. Further, consumer expenditure on clothing, which increased in Europe by 3.2 per cent per year during 1970-73, dropped to 1.8 per cent over 1973-78—indicating a clear shrinkage of the textile market in the continent. In the US, imports of textiles, despite absolute increases, have constituted a smaller proportion of aggregate demand in recent years with the respective shares for garments of all types and women's dresses at 22 and 5 per cent of the aggregate domestic consumption during 1979.[19]

The textile industry in the North also developed a few built-in tendencies which had adverse effects on its employment potential in the face of competition from foreign goods. In EEC, clear tendencies were observable, over the last decade or more, to modernise the industry through labour-saving devices.

Such moves, while initiated as an offensive against the highly competitive textile products of the Far East, also reflected the demographic trends in the North.[20] These also explain the tendencies in the labour market in the area, with a rising trend in the level of real wages and growing disparities between the real wage and productivity indices. Thus, while money and real wages were both in the uptrend, a stratification of the labour market—with limited mobility of labour on the one hand and fixed wage differentials among the working groups on the other—undermined the real wage-productivity link. As a result, profitability in these labour-intensive industries often got depressed, both domestically and in relation to their counterpart in the foreign countries.

Simultaneously, the labour market was showing signs of contraction and, in United States, the unemployment rate went up during the recessionary year 1974-75, affecting the labour market in a manner that "...the young appeared for the first time as a disfavoured category in the employment picture, together with immigrants, women, aged workers and ethnic minorities."[21] The outcome was a request from the labour-intensive industries for an intensification of protection, which was generally complied with, especially with the onset of world recession during the seventies when the intensity of protection in a range of the manufactured industries (including textiles and clothing, shoes, steel, transport equipment) went up in most of the industrialised nations.[22] The complex nature of the labour market also led to a certain heterogeneity among the EC nations with labour-intensity in countries such as the UK at a level higher than the average level elsewhere within the Community. Countries found it more and more difficult to agree upon and initiate reductions in their respective protectionist barriers. Difficulties experienced on account of high labour cost were often sought to be countered by supplementary steps, like 'outward processing' with facilities for a duty-free entry of such products. This was especially common in the garment industry where the finishing processes could be conveniently separated from the rest of the operations undertaken inside the country. As with the decisions at the level of tariffs, differences emerged between countries on questions of quota limits for such outward processing of textiles. The national differences

in the level and composition of the unemployed led countries like Britain to differ from the rest of the European Community—with an insistence on a 5 per cent upper limit for such processing against a 20 per cent proposal from the EEC.[23]

The preceding review of the recent trends in one of the major labour-oriented industries in the North supports our argument, advanced at an earlier stage of the present Chapter, that despite all attempts to bring down the protectionist barriers through GATT and other negotiations (including those sponsored through the NIEO), recent years have witnessed a clear tendency for a consolidation of protectionist barriers in different parts of the world. This was in part related to the growing unemployment in these countries—the pressure of which was evident in the official attempts to tackle the unemployment level through direct and indirect financial support to domestic industry. Thus public subsidies constituted a sizeable proportion of GDP in these areas, as recorded in the official estimates.[24] In the US, short-term special unemployment doles were advanced in the form of 'adjustment assistance'. The latter was intended to cover 30 weeks of the lay-off period to workers laid off in the import-substitution industries, during April 1975 to September 1976.[25] During 1975, unemployment benefits were 2 per cent of national income in the major industrialised countries[26] with unemployment forming a major issue in the arguments advanced for protection. As viewed by some observers, the concept of a 'modern welfare State' was also responsible for the policy of the modern nation States to emphasise employment as a prior goal in economic policy.[27] Like the conservative economists who saw little reason in the arguments where advocacy of protection was considered to be a means to generate employment, the former group considered it highly inappropriate that nations should give up norms of 'efficiency' while deciding issues of free trade and protection.[28] The removal of protectionist devices, according to this view, would have revived the economy such that the residual unemployment would be of a structural nature. Conditions would thus be created for structural changes needed in the long run to maintain growth without protection.[29]

The preceding review of the protectionist trends—both old and new—makes it explicit that their pace had very little to do

with the launching of the reform proposals like the NIEO. As it can be seen from the remaining part of the present section, the outcome had been similar for other goals in the NIEO 'Programme of Action'.

As hinted at in the beginning of the paper, the NIEO had a scheme of raising and stabilising the prices of primary goods exports from the LDCs. This was sought to be achieved through the implementation of an Integrated Commodity Plan, with a package programme of stabilisation, processing, and marketing, for a range of primary goods having wide benefits to both North *and* South. Consistent with earlier plans of commodity price stabilisation launched by the UNCTAD, the NIEO proposed to have a 'common fund' with the purpose of using it as a financial umbrella for the price stabilisation measures.[30]

As with its attitude to the trade restriction/liberalisation proposals, the North had a very conservative approach towards the price stabilisation proposals under the NIEO. While the hardliners (the United Kingdom, the US, West Germany and Japan) were opposed, on principle, to the 'cartel-type anti-merger activity' implicit therein, the United States was also reluctant to include basic foodstuffs as a candidate for the list of items under such agreements. The latter view, however, was opposed by the EEC. On the whole, a limited European support to certain aspects of the scheme met with a strong resistance, from most of the nations in the North, to the possible use of a common fund for a purpose beyond that of a buffer stock.[31]

Very little progress has been made in implementing the targets of the NIEO in terms of the magnitude and the terms of official development assistance and other types of private investment to the South. While the rise of the Euro-money market as an effective alternative to international borrowers has lessened the significance of official aid, the former's impact on the *net* flow of real resources to the South has yet to be observed. On private investment and international monetary institutions, a general reluctance on the part of the North to allow further concessions has similarly prevented an implementation of the reforms envisaged.

The state of the North-South dialogue on the NIEO

Programme of Action, as reported in a recent deliberation of the UN General Assembly held in September 1980, indicates very little success in terms of the realisation of its targets. The meeting, it is noted, ended up in an unresolved debate with the USA, West Germany and England all opposed to the idea of a global negotiation (of North-South issues) by 1981. The UN Committee also tried hard, as has been reported, to arrive at a 'Strategy of Development' based on guarantees from the industrialised countries that: (*a*) the sum lent out as official development assistance (ODA) should be at least 0.7 per cent of their GDP by 1985-87[32], and (*b*) that a sum of $5 billion should be set aside immediately to help the specific countries in the South which had been 'Most Seriously Affected' by the oil price hike. With the present level of ODA from the North, at less than 0.35 per cent of their GDP, and a renewed impact of the oil shock and global recessions on such countries, the North rejected the proposal.[33]

The contemporary world economy shows very little promise in terms of the possibility of achieving the different NIEO proposals, especially those relating to the reduction of protectionist barriers to trade. Rather, there seems to have taken place, over the second half of the last decade, a distinct revival of protectionist trends. One can treat the latter as the policy-response to two types of developments affecting the economies of the North:

First, the long-term trends with a continuing stagflation.

Second, the price shocks and waves consequent on the OPEC cartels.

Thus, the global growth rate of GNP during 1973-75 came down to a normal 1 per cent average—a figure considerably lower than the 5.1 per cent average rate achieved during 1965-73. It is interesting to observe how the hike in oil prices was indirectly responsible for a tightening of import controls in the North during the mid-seventies. The hike in petroleum prices had its first impact on the import policy of the oil-consuming nations. In the US, the growth rate decelerated to 1.1 per cent over 1973-75 (the corresponding figure being 3.7 per cent during 1965-73). This led to a considerable cut in America's imports which, in part, was a natural outcome of the domestic recession.

There took place a spectacular swing in the trade balance of the US, between 1975 and 1978, with a record trade deficit of \$18.4 billion in 1975 (contrast with a \$0.5 billion surplus recorded during 1969-73). The country, however, experienced an overwhelming trade surplus of \$18.4 billion by 1978—a reversal which can be explained, to a large extent, by the recycling of OPEC funds to the US capital market. In the rest of the North, the trade balance improved over 1975-78, and this was combined by three sets of developments:

First, an *improvement in the terms of trade of manufactures* as the initial rise in primary products during 1973 led way to a second round of increases in manufacturing prices within a few years. This implied a clear gain for the industrialised nations.

Second, the overcoming of the global recession by 1975, as happened after the initial oil shock, as the world recovered with a global GDP growth rate at 4.6 per cent during 1975-78.

Third, *a deterioration in the trade balance* of *both* the OPEC and other primary producing countries during 1975-78—a change which, as noted earlier, coincided with an improved balance for the industrialised countries (other than United States).[34] On the whole, the picture was one of the revival of the capitalist nations in the North during 1975-78 which was of little avail in reversing the trends in protectionism that had accelerated during the previous recession. This was quite apparent, both in the record of protectionist measures in the North (a glimpse of which is available in the brief account which precedes this section) and in the favourable trade balances enjoyed by these countries during the period. The domestic and international economic scene was subject to a new wave of conservatism and orthodoxy in these areas, as attempts were made to combat the recession through an application of doses of monetarism and protectionism. The post-recessionary years of 1977-79 saw a continuation of the trend, with unemployment *and* inflation setting the priorities of policy-makers. Alternative proposals, which included adoption of direct import controls by deficit nations such as the UK or USA (as a means to achieve a higher domestic growth rate along with improvement in balance of trade), while coming from working groups close to the labour party in England, shared the protectionist favours of the conservative solutions.[35] As may be expected, the LDCs

had the worst deal in the whole cycle and during these years. They were forced to accept the least favoured position in terms of trade balance, the terms of trade, and the domestic growth rates.[36] Implementation of international economic reforms, as envisaged under the NIEO, had very little relation to such developments.

The ongoing tendencies of protectionism and the monetarist revivals are unlikely to be reversed in the near future. In fact, the latest indicators of economic activity in the world show very gloomy signs with low or negative growth rates in the major industrialised countries. This has been preceded by a second oil shock during 1979-80. As an immediate consequence, the current account surpluses of the OPEC nations have swelled, from a $5 billion level of 1978, to unprecedented $68 billion and $115 billion during 1979 and 1980, respectively. The corresponding balance for the OECD went down, from $33 billion in 1978 to negative figures of $10 billion and $50 billion during 1979 and 1980, respectively. Countrywise, Japan and West Germany went through the more spectacular downswings while the US, as before, was relatively better off.[37]

It is uncertain which directions the world would move in as a result of the second oil price hike. The pattern of growth, technology, employment, and relative prices, as would eventually emerge in the medium-term, however, are unlikely to reverse the long-term tendencies towards additional restrictions on commodity trade and other resource transfers. Thus the success or otherwise of the NIEO Programme of Action is circumscribed by factors beyond its own sphere of influence. In the absence of an ability to control circumstances which limit the potentiality of its success, the NIEO is probably destined to have a very low potential in terms of effectiveness.

References

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2. See Roger D Hansen *op. cit.*, pp 21-24 for a rationalisation of the North's moves and attitudes in connection with the NIEO. Also see Diaz-Alejandro Carlos F, 'Delinking North and South: Unshakelled or Unhinged?' in "Rich and Poor Nations in the World

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3. Hansen, *op. cit.*, p 25.
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7. Fagen, Richard R, 'Equity in the South in the Context of North-South Relations' in Albert Fishlow, *et al*, *ibid.*, pp. 173, 199.
8. Hansen, *op. cit.*, pp 47-51.
9. A graduated tariff structure with rates on manufactures higher than those on inputs and providing the necessary degree of 'effective protection' to the finished wares.
10. Cooper R N, *op. cit.*, pp. 262-3.
11. Based respectively on the EEC proposal of the cut=$\frac{1}{2}$ (x-10%) and US 'new' formula of the reduction as described in the text.
12. Bhagwati Jagdish (*ed*) "The New International Economic Order" p. 163.
13. *Ibid.*, p 165.
14. *Ibid.*, p. 168, Bhagwati observes a link between a failure to win Escape Clauses under Article IX and the increased adoption of VER methods.
15. The above details are collected from *Far Eastern Economic Review*, April 4, 1980, "The Shrinking Textile Market."
16. "Trade Liberalisation, Protectionism and Interdependence" Richard Blackharst, Nicolas Marian and Jan Tumlir, GATT Studies in International Trade, No. 5, Geneva November 1977, p. 13.
17. *Ibid.*, p. 13.
18. The term 'Pressures for Protection' has its origin in the recent literature on revival of protectionism in the West.
19. *Far Eastern Economic Review*, *op. cit.*
20. *Ibid.*
21. See Angelo Angelopoulos, "For a New Policy of International Development", NY 1976, pp. 26-27 and *OECD Observer* No. 77 September-October 1975.
22. Richard Blackhurst, *et al*, *op. cit.*, p. 44. Also, See Anne Krueger, "The Impact of the Causes and Consequences of Worldwide Inflation of the LDCs" (mimeo) 1979, p. 22. ". . .The industries in which protectionist pressures are most pronounced are, in general, those which are intensive in the use of unskilled labour in the developed countries . . . the increase in real wages which has been a concommitant of the economic forces at work in the 1970s has undoubtedly intensified the pressures on labour intensive industries thus tending to accelerate their adjustment process."
23. *Far Eastern Economic Review*, *op. cit.*
24. The respective proportions were 6.7 per cent (Norway) 4.1 per cent

(Belgium) 2.8 per cent (UK) 1.3 per cent (Japan) and 0.8 per cent (USA) during 1974-75. See Richard Blackhurst, Jan Tumlir and Marian Nicolus, "Adjustment, Development, Trade and Growth in Developed and Developing Countries." GATT, September 1976 p. 89.

25. *Ibid.*, pp. 30-34.
26. Angelopoulos Angelo, *op. cit.*, p 29.
27. Melryn B Krause, "The New Protection", New York 1978, pp. 21-26.
28. See for an elucidation of the argument in relation to United States, Anne Krueger, *op. cit.* At a different level of analysis it has been argued that empirically there is very little evidence that imports from LDCs which are largely of inter-industrial in nature can potentially be more labour-displacing than similar imports from the developed nations which are intra-industrial in nature. This diminishes considerably the basis for the protectionist arguments in the developed countries which are advanced against imports from the LDCs. See Jan Tumlir *et al*, (GATT November 1977) *op. cit.*, pp. 63-66.
29. Jan Tumlir, *et al*, (GATT 1977) *op. cit.*, pp. 30-34.
30. See Hansen, Roger *op. cit.*, p 97 and Cooper, R N, *op. cit.*, pp. 282-83.
31. Cooper, RN, *ibid.*, p. 287.
32. This incidentally, was *also* the target set by the NIEO in 1976.
33. *Economic Times* (New Delhi), September 3 and 15, 1980.
34. Data relating to all these developments are taken from *Cambridge Economic Policy Group Review*, April 1979, pp. 10-11. One can have an idea of the magnitude of such developments from the following :

(A) GNP Growth Rate:

	1965-73	1973-75	1975-78
USA	3.7	—1.1	5.4
Japan	10.8	0.1	7.5
EEC	4.5	—0.2	3.1
Other Developed Market Economy	5.3	1.9	2.8
OPEC	8.3	8.1	4.7
World	5.1	1.0	4.6

(B) Terms of Trade between Non-Oil Primary Goods and Manufactured Exports (1975=100)

1965	91
1974	117
1975	100
1978	94

Terms of Trade between Oil and Manufactured Exports (1975=100)

1965	45
1974	103
1978	96

(C) Trade Balance ($ 1975 billion)

	1969/73	1975	1978
USA	0.5	—18.4	18.4
EEC, Japan	12.1	—0.3	30.1
OPEC	3.1	28.1	6.9
LDCs	—2.3	—20.7	—6.3

35. See, *Cambridge Economic Policy Group Review*, 1978, and 1979.
36. See Statistics cited in (33) above.
37. *Times of India*, September 15, 1980. Also *Forbes* September 1, 1980. As an explanation of the relative strength of US dollar and her Balance of Payments in the face of the second, oil shock, it is pointed out, "...US entered a recession in March 1980 which international economists think may be ending. The economies of Europe and Japan, by contrast, are just beginning to slow down. Over the near-term, this is bound to help the dollar and lure back OPEC money."

11

Interdependence : A North-South Perspective

PAUL STREETEN

A *locus a non locendo* is an explantation by contraries. The classical example is the Holy Roman Empire, which was neither holy nor Roman nor an empire. There is the distinguished office in Britain called the Lord Privy Seal, of which Edward Heath, when he occupied it, said : "I am neither a Lord, nor a privy, nor a seal." Critics have maintained that the new International Economic Order is also a *lucus a non lucendo.* There is nothing new in it (they say), because all the proposals have been made before. It is not international, for much of it is about delinking and self-reliance. It is not economic but about power and its distribution. And it is not an order, for some advocates of the NIEO call for confrontation and conflict, while others wish to replace the magical order of the market by the chaos of bureaucratic controls.

These critics, and the politicians and officials from the North engaged in the North-South negotiations, are like an inverted Micawber : they always wait for something to turn down. Would it not be more constructive to meet inadequate or counterproductive proposals from the South by positive counter-proposals on the part of the Northern negotiators?

Before embarking upon an outline of a framework for such positive and constructive responses, some conceptual clarifica-

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tions are useful. *Interdependence* should be distinguished from *integration*, which in turn is not the same as *common* or *mutual* interests. Integration implies behaviour on the part of separate countries as if they were a single country. If integration is defined without the value premise that all members of the integrated area should, in some sense, be treated as equals, the world was more integrated in the 19th century than it is today. By imposing fewer objectives on government policy, and by accepting what later appeared to be irrational constraints, such as the gold standard, fixed exchange rates and balanced budgets, different countries were integrated into a single world economy, dominated by one power. The addition of numerous objectives to government policy, such as full employment, growth targets, income distribution, price stability, regional policy, protection of the natural environment, etc., and the rejection of constraints on policy such as fixed exchange rates and limits on the discretion of fiscal and monetary policy, while leading to greater integration of national economies, has led to disintegration of the international economy. Such disintegration is, however, consistent with a high degree of interdependence. For interdependence can take the form of inflicting harm by unilateral action by one country on other countries. Competitive protectionism, devaluation or deflation or global pollution of the air or oceans beyond national boundaries are instances. A nuclear war would be the ultimate form of interdependence resulting from international disintegration.

Interdependence is measured by the costs of severing the relationship. The higher these costs, the greater the degree of dependence. If high costs would be incurred by both partners to a transaction, there is interdependence. It is quite possible to have intensive and rapidly growing international relations, without a high degree of interdependence, if the relations can be replaced at low costs. There is a (different) sense of "interdependence", according to which "dependence" means only "caused or influenced by." In this attenuated sense there can be interdependence, even though the costs of severing it are low or even negative. But this is not the sense in which the concept will be used in this Chapter.

Sometimes mutual interests are confused with interdepen-

dence. Yet, mutual interests can exist without any interdependence. Two countries may be wholly autarkic in their trade policies and therefore, completely independent of one another, yet it may be in their mutual interest to open up foreign trade with each other. Interests can refer to potential, interdependence is always actual.

Mutual interests are sometimes confused with common interests. Mutual interests imply that actions on the part of one agent are reciprocated by different actions on the part of the other agent. Common interests refer to shared areas of interests, such as the preservation of the stock of fish in the sea or the forests, or clean air, or peace. Mutual interests apply to transactions in private goods; common interests to public goods.

Interdependence is often said to be large and to have increased. International trade is taken to be an indicator of interdependence, and its high and (until recently) growing values are accepted as evidence. Yet three important qualifications are necessary.

First, if we take the ratio of international trade to national income, the rapid growth in the post war decades can be taken to be a return to pre-1914 values. For the major countries, trade as a proportion of GNP has just about caught up with what it had been before the damage done by two world wars and the great depression. The ratio of exports to GNP was nearly 14 per cent in 1960 and over 22 per cent at the end of the Seventies. But it was about that before 1914. If, however, we allow for the fact that the public sector has greatly increased, and that the prices of non-tradeable services in this sector have risen more than the average price level, trade as a ratio of private tradeable goods has indeed increased since 1914.

The second qualification is that the countries, and (in some cases) the groups within countries that have participated in and benefited from the growing trade, have been confined to a few. The large poor masses of the Indian subcontinent and of sub-Saharan Africa have not participated sub-stantially in the growth of international trade.

The third qualification is that it is not the volume of trade or its rate of growth that should be accepted as an indicator of economic interdependence, but the damage that would be

done by its elimination, *i.e.*, consumers' and producers' surpluses. Much trade is conducted in slightly differentiated consumers' goods, which could readily be replaced by domestic production without great loss to consumers. This would have to be qualified only if the product differentiation is based on substantial economies of scale and yields great benefits to consumers, so that the elimination of these lines and their replacement would be very costly.

There may even be an excess of international trade beyond the optimum because of cross-hauling at prices that are below total unit cost for foreign sales of, say, motor cars. On the other hand, small and slowly or not at all growing items of trade could be of very great importance and lead to substantial losses if they were cut out. Trade is, of course, only one, and not the most important, among many manifestations of interdependence. Others comprise the flow of factors of production, capital, enterprise and labour, across frontiers; there is the exchange of assets, of legal rights, of information and knowledge; there are educational and cultural, in addition to military and political impulses that are rapidly propagated throughout the world. Sir Arthur Lewis, when he invited us to imagine that all the developed countries were to sink under the sea (Lewis, 1970), suggested that, after a period of adjustment, it would not make much difference to the developing world. The same could be said about the developed countries, if the developing countries were to sink under the sea.

Yet, with these qualifications, there is no doubt that interdependence has increased. But the word is used loosely and means different things to different people. Richard N. Cooper has drawn a useful distinction between four effects which he calls the trampoline effect, the ricochet effect, the erosion of policy and the transformation of the impact of policy.

The trampoline effect derives from the analogy that a major impact in one place has a consequential, through a smaller impact on all other places of the area. Sir Dennis Robertson used to say that when America sneezes the rest of the world catches pneumonia. This is no longer so, but the rest of the world still catches a cold. But interdependence (as opposed to dependence) has led to reciprocity. If the rest of the world sneezes America also catches cold. This is a very different

mechanism from the monetary seesaw mechanism described by David Hume, in which the outflow of gold spells deflation in the specie-losing country and inflation in the gaining country. To change the metaphor—the world is no longer a seesaw but a roller-coaster, in which we all go up and down together.

The second form of interdependence takes the form of the ricochet effect. The USA restricts steel imports from Europe, Europe then restricts steel imports from Brazil. South Africa and Korea, and as a result, more Brazilian, South African and Korean steel comes into the USA. Restriction of grain sales to Russia led the Russians to substitute purchases from Argentina. Spain and Italy, no longer able to buy from Argentina shifted their purchases to the USA. In this way shots at one targets backfire in an unexpected manner.

The erosion of policy, the third effect, means that the old methods of economic control have become much less effective because of the internationalisation of many transactions. The multiplier of fiscal stimulation has been reduced because a higher proportion of extra incomes are spent on imports. Therefore, fiscal policies of expansion are much less effective. Monetary policy is less effective because capital can easily flow abroad, or a restrictive monetary policy can be paralysed by capital inflows. Even micro-economic policies aiming at industrial regulation have become eroded. Transnational corporations can escape regulation by moving to tax havens in Switzerland or to regulatory havens in Luxembourg. As a result of this partial paralysis of economic policy the call has arisen for stronger international co-ordination.

Finally, the impact of policy has been tranformed. This is the fourth effect. We have to take new consequences into account that arise from international transactions. In the old days a rise in the rate of interest affected mainly construction of long-lasting assets such as houses, investment in stocks and, through changes in the stock exchange valuation of financial assets, consumption. Today, a rise in the U.S. interest rate leads to an inflow of capital, if the expected depreciation of the dollar over the period of the loan is less than the interests differential between foreign and US interest rates and if other things, such as expectations of other currency values, relative rates of inflation and political conditions remain the same.

(For short-term loans it is possible to buy forward exchange, in which case the cost of the forward exchange has to be deducted from the interest differential). This leads to an appreciation of the dollar which makes Japanese imports cheaper. If workers in Caterpillar Tractors become unemployed, they blame the Japanese tractor industry, not the restrictive monetary policy of the USA, or the large budget deficit caused by military expenditure which has led to high interest rates. In the USA there is conflict between the financial interests that benefit from a high (and stable) dollar, because it raises the profits in international banking, and the industrial interests that want a low value of the dollar for exports and employment.

Or to take another example, the IMF imposes austerity measures on debtor countries so as to create the capacity to repay debt. As a result, they cut imports not only from the advanced industrial countries, but also from other developing countries, with which trade has grown rapidly in the past. Not only are Northern growth rates reduced, but the debt-paying capacities of the countries whose exports have been cut are also reduced and the debt crisis is aggravated. Mexico, Chile, Venezuela, Argentina are principal customers of Brazil's exports and as these countries obey the IMF and cut their imports from Brazil, its ability to service debt is reduced.

In order to understand these effects and the resulting international economic disorder, it is important to remember some of the functions that any international order for economic development must fulfil. (See Stewart and Sengupta, 1982). There must be, first, the generation of balance of payments surpluses from the rich centre; there must be, second, financial institutions that convert these surpluses into long-term development loans on acceptable terms; there must be, third, the industrial capacity to produce and sell the capital goods needed for development; and there must be, fourth, military power to back the economic power, to see that contracts are enforced, peace kept, etc.

These four functions had been combined until about 1970 by a single dominant power, with the rest of the world dependent on the coordination by the centre. Until 1914 this power was Great Britain, which established an international order and

developed the areas of recent settlement in Canada, USA, Australia, New Zealand, South Africa, and Latin America under the *Pax Britannica*. Current account surpluses were generated by Britain, the financial institutions had grown in London, the industrial capacity of the North of England provided the iron, steel and capital goods, and the British navy kept world order. There was not much of an order between the two world wars, but for a quarter of a century after the end of the second world war, the *Pax Americana* established an international order centered on the mighty dollar. Current account surpluses originated from the USA and for a time people worried about a chronic dollar shortage ; New York became a rival centre to London for financial institutions ; the industrial capacity grew strong in the USA, and the American army enforced the American peace. But since 1970 these functions have been fragmented, split up between different centres, without coordination. The surpluses were generated by a few desert sheikhdoms in the Gulf, occasionally joined by Germany and Japan ; the concentration in the financial centres of London and New York was diluted by the mushrooming of banks in Singapore, Hong Kong, Japan, Germany, and their affiliates in the Cayman Islands, the Bahamas and other tax havens. The industrial capacity had increasingly shifted to Germany and Japan, and to the newly industrializing countries. And the military pigmies are the economic giants, whereas the military superpowers are economically weakened by their military expenditure. The four functions are dispersed among different groups of countries and the world has become schizophrenic.

But this break-up of unco-ordinated functions also provides us with the opportunity for a constructive institutional response, and for the replacement of the past international orders based on dominance and dependence by a pluralistic order of independence and equality.

If I had the knowledge and the time I would sketch similar developments in international interdependence in the areas of culture and military security. This being an economic essay, I shall forgo this task, except to note that in the cultural sphere something very much like economic interdependence has occurred. As we travel from capital to capital, North and South, East and West, we see the young wearing the same clothes and

adopting the same hair styles, playing the same music, dancing the same dances, jogging, sharing the same attitudes to divorce, contraception, abortion, homosexuality, drugs. Even crimes have become internationalized. But here, as in trade, in spite of the revolutions in communication and transport, in spite of the jet plane, the telex, satellite TV, transistors, container ships, super tankers and super ore carriers, the poor masses in the South have been left out and are stuck in their traditional ways. There have been reactions to this rapid but partial dissemination of cultural impulses and assertions of indigenous cultural identity. Their cultural identity is often the only thing that politically conscious people from powerless countries can assert.

The gap between the rapid advances in technical knowledge, resulting in the revolutions in transport and communications, which have shrunk distances, on the one hand, the political institution of the nation State, with its claims to sovereign authority and its attempts to regulate the lives of its citizens and respond to their clamour for protection and insurance against the impact of interdependence, was vividly symbolised by the shooting down of the Korean commercial airliner over Soviet territory. The tensions and contradictions created by this gap are at the root of the negative sum games, the mutual infliction of damage in an interdependent, though in some respects disintegrating world.

The main conclusion I draw from what I have said so far is that we are suffering from a lag of institutional adaptation to the technological and political reality of the last two decades of the twentieth century. One institution, the nation State, is still rooted in a soil 200 years old, while modern science and technology have moved ahead rapidly. The dispersal and fragmentation of the four development functions has meant that opportunities have been missed, and damage has been inflicted as a result of the uncoordinated action by these nation States.

I do not want to be misunderstood. When I speak of institutional innovation I do not mean additional international bureaucracies. New bodies, organizations and forums have mushroomed. But international bureaucrats have often been an obstacle rather than a help to progress and reform and have increased the resistance to change. Sir Hermann Bondi has said

that the stupiditly of an organization is proportional to the cube of the number of its members. And one can imagine the size of global institutions. What I have in mind by institutional innovation is rules, procedures and organizations that have precise technical functions (such as the successful Universal Postal Union), are immune from politicization, and are democratically controlled.

It is worth noting that these institutional responses have occurred in the private sector. The multinational corporations, Eurocurrency market and the transnational banks are responses to the revolution in information, communications and transport. The equivalent in the public sector can be achieved, as is shown by some successful international bodies, such as the International Communication Union, the International Civil Aviation Organization, the World Meteorological Association, and a few others. We should aim at functional solutions at the global level.

Many of the problems in the international relations of interdependence arise from a combination of the free rider problem and the prisoner's dilemma. The free rider problem exists because some of the solutions of international difficulties consist in the provision of public goods (see Kindleberger 1978). The prevention of international wars is a public good. So is a working international monetary order with an international central bank as a lender of last resort and as a provider of liquidity. An international income tax or the coordination of international fixed investment decisions fall under the same heading. But these public goods will be systematically undersupplied, because any one country will not find it worth its while taking the appropriate action, relying on others to do so. And each country knowing that others feel that way, will not have an incentive to be the only one who contributes to something that benefits all. As a result peace, or international monetary stability, or world development will be undersupplied.

The prisoner's dilemma arises because each country, in promoting its own national interest rationally, contributes to a situation in which all countries are worse off. This applies to competitive protectionism, beggar-my-neighbour devaluations or deflations, investment wars. the arms race. global pollution of the air and

the sea, overfishing and excessive exploitation of exhaustible resources to which no property rights are attached, and similar situations. What is needed is either co-operation or a supranational agency that forces all agents to act in what will amount to their self-interest. Without such co-ordinated or enforced action, the outcome of nationally rational actions will be irrational damage.

In order to set up a framework for a more constructive response to the call of the South for a better world order Kenneth Boulding's distinction between the exchange system, the threat system and the integrative system is useful. The exchange system is based on the principle : "I do something good for you if you do something good for me." It covers the area of mutual interests. The threat system is based on the principle : "unless you do something for me I shall do something horrid to you." In the integrative or love system the principles applied to ourselves and our family are extended to other members of a wider community. We do good neither in the expectation of good in return nor under the threat of harm, but from a sense of unity or solidarity.

Systems can, of course, be mixed. What appears to be a genuine sacrifice in the short run may turn out to be beneficial to the sacrificer in the long run. Or the removal of a benefit (such as access to markets) can constitute a threat. Or the division of the mutual gains can give rise to conflicts.

The clear distinction between the three systems is useful for a clear analysis, but not for negotiations. There we have an interest in pretending that what is truly a benefit to us is a sacrifice, so that we may get concessions on other fronts.

The exchange system of mutual interests has been much promoted recently, especially by the Brandt Commission, the OECD and the Overseas Development Council. But by and large, and prisoner's dilemma situations apart, people, groups and nations are very good in detecting and pursuing their self-interest. Not much exhortation is needed. Moreover, it would be only by a fluke of coincidence if the actions dictated by self-interest were to coincide with our development objectives, whether these are accelerated growth, growth with equity, redistribution with growth, or basic needs.

Removal of dangers of the threat system should have a high

priority, for it can lead to mutual impoverishment and even destruction : disarmament, removal of the threat of protection, an end to beggar-my-neighbour deflation and devaluation and of "voluntary" export restraints, are clearly lines of action worth pursuing. They call for international co-ordination and institutional responses of the kind discussed above.

Finally, the integrative system based on moral obligation and human solidarity is having a bad time just now, but it has proved quite a good base for North-South co-operation in some of the smaller North European countries. A cool analysis of the tactics of negotiation shows that hardly ever is there sole reference to self-interest of the partners. An important role is played by appeals to mutually acceptable principles.

Let me end by giving three illustrations of the kind of institutional reform I have in mind. First, there is the creation of an international central bank that would be able to create (and withdraw) international liquidity, both for transactions and for precautionary reasons. A panic run on the banks would cause an international financial breakdown unless an institutional arrangement existed that provided the liquidity. The General Arrangement to Borrow does this now to some extent, but a Central Bank would do this on a more solid and reliable basis.

Second, there is the institution of an international income tax, levied progressively on incomes per head, with a lower exemption limit, collected automatically, but disbursed to developing countries according to agreed criteria. The monitoring of the fulfilment of the criteria should be done either by the developing countries themselves or by a mutually accepted transnational body.

Third, there is an international body to provide information on decisions for fixed, durable investment with long construction periods, so that we avoid the lurches from scarcity to excess capacity in steel, shipbuilding and fertilizers that we are suffering now. It should obviously not be a super-cartel that goes in for market sharing agreements, but a method of coordinating investment decisions.

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PART D

MUTUAL INTEREST PARADIGM : BRANDT REPORT AND AFTER

12

Reflections on the "Mutual interest" Thesis and the Impasse in North-South Negotiations

ALFRED MAIZELS

I

MUTUALITY AND CONFLICT OF INTERESTS IN THE NORTH-SOUTH NEGOTIATIONS

The demand of the developing countries for a more equitable system of international economic relations, as embodied in the resolutions on Establishment of a New International Economic Order (NIEO) adopted by the United Nations General Assembly in 1974,[1] has generated considerable controversy and a voluminous and still rapidly growing literature on the subject. Most of the published argumentation has been devoted to attacking, or defending, specific proposals such as those for increased financial transfers to developing countries, price-raising commodity agreements and trade preferences for imports from developing countries.

The primary purpose of the present article is not to enter the controversy on specific proposals, though such proposals will necessarily be referred to, but rather to examine the NIEO

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concept more broadly and to consider its implications for the relationships between developed and developing countries, in particular in regard to the management and control of the international economic system. The main focus of the article is on the interplay of convergent and divergent interests and perceptions of developed and developing countries in relation to certain major proposals for institutional reform that have been associated with the NIEO concept.

(A) The Concept of the New International Economic Order

It is first necessary to define the meaning and essential content of the NIEO concept. The relevant General Assembly resolutions were closely negotiated and thus had to reflect in some measure the views and interests of a large number of countries. Even so, many of the key elements were disputed by developed countries, which entered reservations on their usefulness or feasibility. Moreover—and this is the main difficulty of interpretation—these resolutions embody all the principal policy recommendations which were included in the International Development Strategy for the Second United Nations Development Decade,[2] as well as the new orientations and new policy measures related more directly to the determination of the developing countries to fashion a more equitable international economic system. This *melange* made it possible for much of the subsequent critiques of the NIEO to focus on the defects of the various policies embodied in the earlier Strategy, rather than to examine the operation of the international economic system from the viewpoint of its equity (as regards the division of benefit), as well as of its efficiency (as regards the promotion of economic growth and the provision of a smooth international adjustment process).

What, then, are these new orientations and new policy measures which distinguish the NIEO concept from that of the earlier Strategy? The clue to the distinction can be found in various passages of the Declaration in Assembly resolution 3201 (S-VI), which, in calling for a NIEO in order to "correct inequalities and redress existing injustices," states that "it has proved impossible to achieve an even and balanced development of the international community under the existing international

economic order ... which perpetuates inequality." Moreover, a new order is necessary to reflect the "irreversible changes in the relationship of forces in the world" necessitate the active, full and equal participation of the developing countries in the formulation and application of all decisions that concern the international community."

The central purpose of the NIEO is thus politico-economic : to change the way in which the international economic system functions, so as to provide developing countries with far greater support for their development efforts, and thus to reduce, if not to eliminate, the built-in inequity of the system, and to do this on the basis of a democratic approach to international economic decision-making, in which developing countries would have full and effective participation. In support of this objective, the Programme of Action in Assembly resolution 3202 (S-VI) calls, *inter alia*, for : effective sovereignty by developing countries over the use of their natural resources ; the regulation and stabilization of world markets for primary commodities ; appropriate adjustments in the economies of developed countries to permit a rational, just and equitable international division of labour ; the reform of the international monetary system ; the regulation of the activities of transnational corporations ; the support of producers' associations ; and the promotion of economic co-operation among developing countries, based on the principle of collective self-reliance.

The essential characteristic of all these proposed measures is that they would involve institutional change in the existing mechanisms and structures governing the economic relations between developed and developing countries, as well as the strengthening of mechanisms for closer economic co-operation among the developing countries themselves on the basis of the principle of collective self-reliance. Such closer mutual co-operation on the part of developing countries is seen as serving a dual objective : it would promote economic development by exploiting potential complementarities among different developing countries, and—by the adoption of common positions and common policies—it would enhance the bargaining power of developing countries in their economic relations with the transnational corporations and Governments of developed countries.

This stress on institutional change is in marked contrast to the package of measures envisaged in the Strategy for the 1970s, which aimed essentially at improvements in the functioning of the international economic system within the existing institutional framework.

To take one important example, the principal concern of the Strategy in the international monetary field was to ensure the provision of an adequate flow of financial resources to developing countries, on suitable terms and conditions, and in this respect it laid down, among other recommendations, the well-known aid target of 0.7 per cent of GNP (as well as the less useful target of 1 per cent of GNP for all financial flows). Since aid and, to a considerable extent, other financial flows also, remain very much under the control of donor governments, or of financial institutions in developed countries, this element of the Strategy is equivalent to modifying the functioning of the existing system, but not of re-structuring the system itself. From the point of view of the NIEO concept, it could indeed be argued that more aid *via* existing mechanisms, or increased reliance on investment by transnational corporations, would increase the dependent status of developing countries, and thus move the institutional framework away from, rather than towards, the NIEO.[3] A significant movement towards the NIEO would rather involve a thorough-going reform of the international monetary system itself, with the effective participation of developing countries in the decision-making process, a procedure which would inevitably change the "rules of the game" in the international monetary and financial sphere. An integral part of a reformed international monetary system could be the establishment of new mechanisms to provide a much more adequate flow of aid than at present on a secure and dependable basis.

Similarly, in the field of commodities, the Programme of Action referred to above called for an "over-all integrated programme", which was later elaborated in UNCTAD to include new mechanisms for reducing commodity market instability—a Common Fund as the integrating element of a series of international price stabilization agreements—and provision for the later negotiation of measures to increase the processing of commodities in developing countries, and to enhance their

participation in the international marketing and distribution of their commodity exports. Measures to promote commodity processing will clearly involve changes in the present discriminatory tariff structures of developed countries, while measures to enhance the marketing and distribution capabilities of developing countries will—if they are to be effective—inevitably impinge on the entrenched market power of the transnational corporations.

Again, as regards technology, the NIEO envisaged the formulation of a code of conduct for technology transfer to developing countries—negotiations on which have now reached an advanced stage in UNCTAD—as well as for a more general code to regulate the activities of transnational corporations in host countries including the regulation of profit repatriation by these corporations. The implementation of the Lima Declaration and Plan of Action on Industrial Development and Co-operation, aimed at the accelerated industrialization of developing countries, adopted by the Second General Conference of UNIDO in 1975 as part of the NIEO concept, would involve major policy changes not only by developing countries, but also by developed countries in promoting much faster structural change in their own economies to accommodate far greater imports of industrial products from developing countries. This in turn implies the creation of some kind of international convention, or new "rules of the (trading) game", to promote structural change of the dimensions required.

Thus, it can be said that the NIEO concept, in so far as it is concerned with economic relations between developed and developing countries, is essentially concerned with restructuring the existing institutional framework within which these relations are conducted. Such restructuring is envisaged in the NIEO concept at two interrelated levels : the regulation of the activities of transnational corporations at the level of the private sector, and a reform of the "rules of the game" at the level of intergovernmental agreements, treaties and conventions.

It is this focus on institutional reform which appears to have been the principal difficulty behind the slow progress of the "North-South dialogue". There have been, of course, many other obstacles to progress in the various negotiations that have taken place, including divergences of interest on particular issues

and the technical complexities inherent in many of the proposals under consideration. Generally, however, the developed market-economy countries have opposed proposals involving radical change in the existing institutions and mechanisms unless they were fairly marginal ones, as well as opposing proposals for the creation of new institutions, unless these were not in a position seriously to challenge the existing system.

The slow progress in North-South negotiations would appear at first sight to be in contradiction with the widely-held view that the institutional changes involved in the NIEO approach would benefit the developed, as well as the developing countries. The next section examines this "mutual interest" thesis in greater detail.

(B) The "Mutual Interest" Thesis

It is useful—following the argument of the previous section—to distinguish mutual-interest arguments for improvements in the functioning of the existing institutional framework from those which would involve reform of the institutional framework itself.

Various proposals for a "massive transfer" of resources to developing countries, for example, generally fall in the former category. Unless such "massive transfers" are envisaged as an integral part of a thorough-going reform of the international monetary system, they rely mainly on the argument that the feedback of additional demand by developing countries for the exports of developed countries would raise the latter's GDP growth rate significantly. This mechanism could, depending on time-lags and other circumstances, act as a short-term counter-cyclical device, in addition to providing stimulus to growth in developed countries in the medium and longer-term.[4]

Similarly, proposals for expanding food and energy production for domestic consumption in developing countries, while important for avoiding shortages of critical commodities in the future—and, to this extent, benefiting all groups of countries—are usually put forward in the context of existing institutional arrangements.

These and other proposals for promoting the development process by improving the functioning of the existing institu-

tional framework are all worthy of serious consideration and early adoption. But they do not, by themselves, involve a meaningful movement towards a NIEO, in the sense defined above.

The central issue in the present context is thus whether the "mutual interest" hypothesis can be justified for the second category of proposals, namely, those involving a significant reform of the existing institutional framework. It is useful for this purpose to consider some of the principal proposals for institutional reform that have been associated with the NIEO concept. Four sets of such proposals are considered here briefly, namely, those related to world commodity markets, to the patterns of production and trade in manufactures, to international principles and rules governing trade in general, and to the international monetary system.

(*a*) *World commodity markets*

The principal element, in the resolutions on the NIEO, relating to commodity markets and trade was that market structures should be improved through international measures to stabilize prices of commodity exports of developing countries at "just and equitable" levels in real terms, to preserve the purchasing power of these exports, to improve the share of developing countries in the transport, marketing, distribution and processing of their primary commodities, and to improve the competitiveness of natural materials facing competition from synthetic substitutes.

Since the adoption of the Integrated Programme for Commodities (IPC) at the fourth session of the United Nations Conference on Trade and Development in 1976[5], negotiations have been in progress for the establishment of international agreements for eliminating excessive price fluctuations in a range of commodity markets, and for setting up a Common Fund to finance buffer stocks established as part of such agreements. Though the Common Fund is in the process of being established, progress in the individual commodity negotiations has been extremely protracted. Of the 14 commodities listed in the UNCTAD 1976 programme which were not already covered by international agreements, for only one—natural rubber—

had a new agreement been negotiated by mid-1980. Preparations for new agreements have reached an advanced stage for a further two commodities (jute and tea), but for the remaining 11 commodities, accounting in aggregate for 30 per cent of exports of primary commodities—other than petroleum—from developing countries in 1978, the negotiations have made disappointing progress.

The difficulties experienced in negotiating price-stabilizing agreements might appear somewhat surprising, in view of the widely accepted argument that such agreements would be in the mutual interests of both developing and developed countries. As the recent Brandt Commission report has argued, unstable commodity prices generally have an adverse effect on innovation and on the improvement of productivity in developing countries, while making rational fiscal and economic planning much more difficult.[6] It could also be argued that fluctuations in commodity prices often result in misleading signals for investment decisions, and consequently to a waste of resources.

For developed countries, too, there are avoidable costs resutling from commodity price fluctuations : sudden jumps in commodity prices accentuate inflationary pressures with consequent loss of output and employment following remedial disinflationary measures;[7] volatile markets for certain commodities force enterprises in developed countries to hold larger stocks than would otherwise be needed; while the adverse effect of price uncertainty on investment in new capacity and in productivity improvement is likely to lead in the future to shortages of a number of essential raw materials required by developed countries. Thus, international price-stabilizing agreements are likely to bring real benefits to developed countries and, in particular, to make the task of economic management less difficult.

Opposition to the conclusion of price-stabilizing agreements by certain developed-country negotiators has, however, been strong on occasion. One reason is the belief that such agreements will eventually become a means for raising prices above the trend, though in practice this would not appear to be a likely outcome since importing countries would have an equal say with exporters in determining revisions of agreed price arnges. For commodities with terminal markets, opposition to

price stabilizing agreements has also come from trading interests which fear that reduction in price fluctuations will reduce speculative activity and hence their own profits.[8]

Opposition by developed countries to any proposal for an agreement to raise prices has been, and continues to be, very strong. The arguments usually adduced are, first, that such agreements are in effect a disguised form of aid (which should, it is argued, rather be given directly) and, second, that raising prices above what they would have been without an agreement will result in a misallocation of resources.[9] Price-raising is thus not seen by the developed countries as an area of "mutual interest", but essentially as an area where their interests tend to conflict with the interests of developing countries. Conference resolution 93 (IV) on the Integrated Programme for Commodities, which was adopted by consensus, goes some way towards the NIEO objective of improving the real prices of certain commodities and the establishment of a link between the prices of commodity exports from developing countries and the prices of their imports from developed countries, by calling for ". . . . negotiated price ranges, which would be periodically reviewed and appropriately revised, taking into account, *inter alia*, movements in prices of imported manufactured goods, exchange rates, production costs and world inflation, and levels of production and consumption." It remains to be seen, however, whether any new international agreement established under the IPC in fact attains this particular NIEO objective.

In view of the strong opposition of developed countries to the concept of price-raising commodity agreements, it seems likely that future action on these lines will be sought through supply regulation schemes by producers' associations, rather than by the traditional type of producer/consumer agreement. If so, then there would seem to be an implicit consensus that price-raising actions by producers reflect essentially a situation of conflict. It would, of course, be further argued that this is a short-term view, since in the medium and longer-term, one effect of price-raising by developing country producers would almost certainly be an increase in demand for manufactured exports from developed countries (which is basically the argument mentioned earlier in connection with proposals for a "massive transfer" of resources).

When one turns to efforts to enhance the share of developing countries in the transport, marketing, distribution and processing of their commodity exports, conflict situations would seem to be fairly general, particularly where entrenched interests of transnational corporations are involved. As regards transport, shipping companies in developed market-economy countries have maintained their predominance in merchant shipping, in spite of their increasing inability to supply crews (a critical input), by the use of "flags of convenience", a practice which allows them to employ cheap labour from developing countries, while retaining ownership and control in their own hands. A resolution [resolution 120 (V)], adopted by majority vote at the fifth session of the Conference, recognizing the principle of "equitable participation" by the shipping lines of all trading countries in the carriage of bulk in their foreign trade, and calling for studies of measures to increase the participation of shipping enterprises of developing countries in the transport of their own foreign trade, was voted against by all the developed market-economy countries.

These countries—the traditional maritime nations—argue that measures which reserve any cargo for the shipping lines of individual trading countries would reduce flexibility in the world shipping market, and raise costs to the detriment of shippers of bulk commodities. However, it would seem that there are many routes over which bulk carriers trade in a regular and predictable manner, where the carriage—now effected largely by vessels owned or chartered by transnational corporations owning the cargo—could be shared between importing and exporting countries without loss or flexibility.

The international marketing and distribution of primary commodities is another important area in which transnational corporations operate. Their control of the market varies widely, however, from commodity to commodity. There are probably no cases of complete monopoly both in production and in marketing channels, though in a number of important markets, a few large corporations control a high percentage of either the production or exports of developing countries, as well as the principal transport and marketing channels.[10] There seems little doubt that the intermediate stages between production in developing countries and consumption in developed countries—

and particularly the stages of marketing and distribution—can be relatively very profitable, and in many cases entry is difficult or restricted. This is especially the case where these intermediate stages are, in effect, operations within the same transnational corporations that control the foreign trade side of the market (as is the case for a number of minerals), or where terminal markets play a central role (as for cotton, cocoa and coffee).

Efforts by developing countries to enhance their participation in the marketing and distribution of their commodity exports can follow either of two lines. First, there may be the possibility of changing the existing "rules of the game" to allow, for example, developing-country interests full membership in terminal markets, so that producers and consumers can renegotiate on an equal basis the regulations which govern market performance. Another possibility might be the negotiation by developed and developing countries of agreed principles and standards for use in long-term contracts (particularly important for minerals and metals), which otherwise tend to protect the interests of the stronger bargaining partners.[11] While this approach might well have some "mutual interest" appeal, specific action has yet to be taken on these lines.

The second approach—which would inevitably raise conflicting-interest problems—would be for developing producing countries to take measures, preferably in common, to increase their direct participation in the international marketing and distribution system. A number of options may be open, ranging from supplementing to replacing the existing institutional arrangements, depending very largely on the market power that can effectively be mobilized by such common measures.

Thus, the various proposals associated with the NIEO in the commodities field reveal a complex interplay of mutuality and conflict of interest. Mutuality of interest is most apparent in proposals for price stabilization, though even here mutuality is intertwined with actual or perceived conflict of interest. The willingness of developed market-economy countries to negotiate price-stabilization agreements remains influenced to a substantial degree by trading lobbies, as well as by fears that such agreements might lead to pressure by producing countries to

raise prices, or otherwise to reduce the degree of control of the commodity markets at present exercised by developed-country interests.

When one turns to the other NIEO proposals in the commodity field, which generally involve market intervention or other action to enhance the market power of developing countries, there remains strong opposition by the developed market-economy countries. The argument that such proposals, if implemented, would accelerate the development process and, as a result, bring benefits to the developed countries also, would appear to be heavily outweighed by the fear of the latter countries of a reduction in their present pre-dominant role in the organization of world commodity markets and in the probability that this in turn would lead to a reduction in their share of the benefits in world commodity production and trade.

(b) Production and trade in manufactures

The Lima Plan of Action on Industrial Development and Co-operation and related NIEO proposals for a substantial acceleration in the industrialization of the developing countries clearly imply major structural shifts in the patterns of world production and trade in manufactured goods. In particular, a rapid increase in industrial capacity and in the availability for export of manufactured goods from developing countries would require a restructuring of the industrial sector of developed countries to accommodate a large expansion in imports from developing countries.

There would be clear long-term gains for both developed and developing countries from such a restructuring of world industrial production on the lines of dynamic comparative advantage. For the latter countries, an expansion in demand for their manufactured exports would serve to accelerate their industrialization process, a necessary (though not sufficient) condition for their economic and social development. For the developed countries, the short-term costs of phasing out their less-efficient lines of manufacture would be more than offset by the longer-term benefits derived from increased activities—particularly the high-technology and research-intensive ones—in which they

have a comparative advantage and in which productivity is likely to grow at a faster rate than the average. Consumers would benefit more directly from access to lower-cost imports of a growing range of manufactures. There would be increasing potential for intra-industry specialization in trade between developed and developing countries, a process which could generate a substantial expansion in this flow of trade. Moreover, an acceleration in the rate of industrial growth in developing countries would inevitably result in higher growth rates in the demand for the capital goods, technology and associated services of the developed countries.

The case for world industrial restructuring on these lines in the mutual interests of both developing and developed countries is well-known. The interesting question in this connection is why this case is unacceptable in practice to the developed countries. That it is unacceptable has been demonstrated by the strong trend in these countries towards protectionism in the form of "voluntry" export restraints, "reference prices", "orderly marketing arrangements", etc., evident in recent years, and directed essentially at manufactured imports from developing countries. The failure of the GATT multilateral trade negotiations to bring tangible trade benefits to developing countries[12] is another indication of the unwillingness of the main developed countries to accommodate any substantial increase in manufactured imports from developing countries.

It should be recognized that this unwillingness is not a new phenomenon. Even in the period of rapid economic expansion of the 1960s, the Long-Term Arrangement regarding International Trade in Cotton Textiles adopted by the developed textile-manufacturing countries within the framework of GATT in 1962, was designed to limit the growth of low-cost textiles from developing countries (and Japan). Though this Arrangement was adopted as a "temporary" measure, essentially to allow the European cotton textile industry to be restructured on a more competitive basis, the restrictions have become in effect a permanent part of the commercial policy of developed countries and, moreover, have been intensified and widened in the more recent Multi-Fibre Arrangement. Another telling example is the exclusion from preferential market access under the generalized system of preferences (GSP) of a range of

"sensitive" products where imports from developing countries seemed likely to make significant inroads into domestic markets.

Rapid economic expansion is normally accompanied by significant structural shifts. In the period up to the onset of the current world economic crisis, structural change was most marked in Japan's industrial sector, and was only marginal in the United Kingdom and Italy. With the general slowdown in over-all economic growth since the mid-1970s, the rate of structural change in the industrial sectors of developed countries has also been retarded, and this inevitably makes it more difficult for these economies to absorb increased imports from low-cost sources. A partial solution to this problem could be found by measures designed to speed up the rate of structural change, *i.e.*, to promote the expansion of high-technology industries by adjustment assistance and other measures.

The fact that policy in the main developed market-economy countries is in fact directed towards retarding structural change, by additional protective measures favouring uncompetitive sectors, must be a matter of major concern, since such a policy will not only have serious adverse effects on the trade and development of the industrializing developing countries, but is likely eventually to impose far greater and more disruptive adjustments on the economies of developed countries than those they currently seek to avoid.[13]

The explanation of this paradox is essentially that developed countries are giving top priority to dealing with their acute short-term economic difficulties of inflation, unemployment and external payments imbalances. In this short-term perspective, the protection of domestic industries assumes major importance, as a means of retarding the rise in unemployment and excess capacity. With continuing uncertainty in the world economic situation, exacerbated by speculative monetary movements and frequent exchange-rate changes, there was, however, a real danger that developed countries would impose general import restrictions in order to protect their balances of payments, thus leading to a downward spiral in world trade.

This danger has been largely avoided, as a result both of political commitments to refrain from imposing new trade restrictions, and of the tariff reductions arising from the recent

GATT multilateral trade negotiations. The fact that these tariff reductions will bring mutual trade benefits to the developed countries, whereas there is likely to be a net trade loss for the developing countries through the erosion of preferential margins reflects essentially the lack of bargaining power of the developing countries in these negotiations. This unbalanced development means that a disproportionate part of the burden of adjustment to the changes that have taken place in the world economy has been placed on the weaker economies, *i.e.*, on the developing countries.

(*c*) *The Principles and rules governing international trade*

Since the onset of the economic crisis in the mid-1970s, there has been growing awareness of the inadequacies of the existing principles and rules governing international trade, as embodied in the General Agreement on Tariffs and Trade. These principles and rules were drawn up, essentially by the main developed countries, at the Havana Conference of 1947/48. Since that time, profound changes have taken place in the world economy, as a result of which the existing principles and rules have become, to a greater or lesser extent, increasingly ineffective and outmoded. Here, it would seem, is an important areas of mutual interest, in which a reformed framework of principles and rules could be negotiated. New or revised rules designed to protect the legitimate trade interests of developing countries, as well as to reduce trade barriers generally, would now seem urgently required in the interests of moving towards both a more equitable international trade regime and a more efficiently functioning one.

Since the adoption of the NIEO resolutions in 1974, the demand of the developing countries for institutional reform in the field of international trade has widened from specific issues (*e.g.*, implementation of a "standstill" on new trade barriers) to a general review and revision of the whole GATT system. It is now argued that the existing trading principles and rules constitute a central element in the inequitable and inefficient functioning of the international trading system, and that a fundamental reform is required to overcome their deficiencies. For one thing, it would seem anomalous that, whereas the

principle of trade preferences for developing countries has been universally, accepted, that principle is still treated as exception to the trading rules rather than as an integral part of them. It could, therefore, be argued that the provision of a general basis for trade preference for developing countries is now long overdue.

Second, the recent trend towards protectionism has brought about the use of devices such as "voluntary" export restraints, "trigger prices" and "orderly marketing arrangements", which fall outside the existing GATT rules, which are thus rendered ineffective as a means of restraining this trend. Unless such protectionist devices are brought within the scope of internationally agreed principles and rules (including provisions for phasing them out within a reasonable period), they are likely to have serious adverse consequences for the future of the world trading system.

Third, the growing proportion of world trade represented by the intra-firm and related-party transactions of transnational corporations also escape regulation by the existing trade rules. The trade of developing countries, in particular, has become substantially influenced by the decisions and practices of such corporations, which affect the location of production facilities as well as the volume, prices and patterns of trade flows. To be fully effective, internationally agreed principles and rules governing trade flows will need to be extended to cover the operations of transnational corporations.

Fourth, the principles and rules need to be extended to provide a suitable framework for promoting trade between socialist countries, which use State trading enterprises to conduct their foreign trade, and market-economy countries, where micro-decisions are usually taken by private firms within a governmentally determined macro-economic framework.

These and related considerations have prompted the Group of 77 developing countries to propose the convening in the early part of the 1980s of an international trade conference "to negotiate, on a universal basis, a new comprehensive set of rules and principles governing international trade relations . . ."[14]

While a revision of the existing trading principles and rules on the above lines would seem to promise advantages to both developing and developed countries, the issue

also raises the possibility of a conflict of interest arising from differences in the perception of the underlying problem. For the developing countries, the GATT system appears as one devised by the principal developed countries to safeguard their own trade interests, with relatively minor concessions to the trade needs of developing countries. A major revision and reform is thus required to ensure that the rules actively promote the development process, as well as providing an adequate framework for the smooth expansion of world trade as a whole.

For the principal developed market-economy countries, on the other hand, the GATT system is seen as having worked well over most of the post-war period. providing a framework within which an unprecedented expansion of the trade of these countries took place. The philosophy of the GATT system, based on reciprocity and non-discrimination, does not accord well, however, with that of non-reciprocal and preferential treatment for developing countries. The question is whether the two approaches can be combined in a single legal system, as envisaged by the developing countries, or whether the primacy of the non-discrimination philosophy is to be maintained. This latter approach, which has been strongly supported by the principal developed market-economy countries, envisages preferences for developing countries as a temporary expedient, which would no longer be granted when developing countries "graduated" to a level of economic development corresponding to that of the developed countries.

Another major difference in approach, reflecting a more fundamental conflict of interest, relates to the nature of the future evolution of the world trading system. The GATT system was designed to provide the optimum conditions for the "free play of market forces." However, an important part—possibly the major part—of the post-war expansion in trade engendered by the GATT system reflected the rapidly growing market power of oligopolistic transnational corporations. These corporations have also come to control a substantial proportion of the trade of developing countries. Hence, a reformulation of the trading rules designed, among other things, to regulate the trading activities of the transnational corporations would thereby introduce an element of global management, allowing the

international community to exercise a significant influence on the pattern of world trade, as well as on the division of the benefits of trade.

One lesson that can be drawn from post-war developments is that the "free play of market forces" does not generally operate to accelerate the development process; rather, it tends to operate to provide a disproportionate share of the benefits of trade to the economically stronger trading partners (especially the transnational corporations). The question is whether, and to what extent, the developed market-economy countries will accept the need for regulating the activities of their transnational corporations, even though this is likely to involve a reduced share of the benefits of trade and a reduced role in the effective control of the trading system as a whole.

(*d*) *Reform of the international monetary and financial system*

The reform of the international monetary system constituted a major element of the NIEO resolutions.[15] The NIEO proposals covered not only the reform of the international monetary system, including improvements in IMF financing facilities, but also the mitigation of the external debt problems of developing countries and the assurance of flows of concessional finance.

As regards international monetary reform, the NIEO resolutions stressed a number of principles which should be followed : the prevention of the transference of inflation from developed to developing countries ; the preservation of the real value of developing countries' currency reserves; the adequate, equitable and orderly creation of liquidity through the establishment of the Special Drawing Right (SDR) as the central reserve asset; and elimination of the instability of the system, in particular the uncertainty of exchange-rate changes. In addition, the resolutions called for the early establishment of a link between SDRs and additional development financing, and for increased and more effective participation by developing countries in the decision-making process in the International Monetary Fund (IMF) and other international financial institutions.

Little, if any, progress has been achieved towards implementing these principles. An effective limitation on the transmittal of inflation from developed to developing countries,

as well as the maintenance of the real value of developing countries' reserves and the orderly creation of international liquidity, would all require, among other measures, a reduction in the reserve function of the dollar and the establishment of the SDR as the central reserve asset of the system—developments which now seem distant prospects. Furthermore, it remains to be seen whether the present regime of floating exchange rates will, in fact, reduced the instability of the system (even with the surveillance by IMF over exchange-rate policies that was initiated in 1978), while the proposal for a link between SDRs and additional development financing is still strongly resisted by some major developed countries.

Though the need for a reformed international monetary system is widely acknowledged, and indeed the main elements of a reform were elaborated some years ago by the IMF Committee of Twenty, the impetus for such reform seems to have been lost. Instead, *ad hoc* improvisations and make-shift arrangements have been adopted to meet particular disturbances, some of which are likely to impede or postpone, the more fundamental reforms that are required.

As far as the developing countries are concerned, the operation of the international monetary system, as embodied in IMF rules and practices, has never served as an adequate support for their external financing problems. This inadequacy has become even more glaring with the sharp rise in the external payments deficits of the non-oil-exporting developing countries in recent years, resulting from the continuing recession and inflation in developed countries and the rise in oil prices. It is clear that most of the payments imbalances of these countries are structural in nature and are the result of changing circumstances external to their own economies. The IMF balance-of-payments support facilities, on the other hand, though they have been liberalized in recent years, are predicated on the assumption that payments imbalances arise essentially from inadequate or inappropriate domestic monetary and fiscal policies which, if altered in appropriate ways, will restore external equilibrium. IMF support facilities are, therefore, coupled with "conditionality" ceilings and targets which generally tend to undermine development programmes rather than assist in res-

toring external equilibrium with the minimum disruption of the long-term development process.

A thorough-going reform of the international monetary system, with the objectives of providing fully adequate support for the external payments problems of developing countries, and promoting a much smoother international adjustment process, will require major changes in the existing principles of the system and the operational rules of IMF. It would seem that such changes are unlikely to come about without the full and effective participation of the developing countries in the decision-making process in IMF. Voting power in IMF, as well as in other international financial institutions, however, remains firmly tied to country quotas, which themselves reflect the relative national incomes of member countries, and a divorce of voting rights from financial power is likely to be strongly opposed by the main developed countries, which at present effectively control these institutions.

The resistance of the developed countries to institutional change is also evident in regard to proposals to alleviate the debt burden of developing countries. These proposals were, first, that immediate debt relief should be provided, particularly for the least developed and the "most seriously affected" developing countries ; and, second, that a multilateral framework should be established for future debt renegotiation which would operate on equitable and consistent principles designed not merely to resolve an immediate debt crisis, but rather to facilitate the resumption by the debtor country of its development process.

As regards the first proposal, a compromise agreement was reached in 1978 at the ministerial session of the Trade and Development Board, under which developed donor countries accepted a general obligation to improve retrospectively the terms of official development assistance debt in favour of the poorer developing countries, though they reserved the right to decide on the modalities and the beneficiaries of their action at their own individual discretion. The measures taken as a result of this agreement have so far resulted in the cancellation (or refinancing on highly concessional terms) of more than $5 billion of such debt.

No agreement has yet been reached, however, on the second

proposal, for a multilateral framework for debt renegotiation. An UNCTAD Intergovernmental Expert Group in 1978 reached agreement that international action on this issue "should enhance the development prospects of the debtor country. . .", but failed to agree on the appropriate institutional arrangements. The developing countries have proposed the establishment of an independent debt commission to analyse the development problems of debtor countries and to supervise the debt renegotiations. However, the developed countries have argued strongly that existing institutions, in particular the "Paris Club" and the World Bank consortia would, with some modifications, be the most effective means for this purpose.

Finally, the various proposals—such as the pledging of development assistance on a multi-year basis, and the imposition of an international development tax—elaborated in support of the NIEO call for more predictable and assured flows of concessional finance to developing countries have received little support from developed countries. A compromise agreement reached at the fifth session of the Conference recommended that donor countries should announce annually their plans or intentions regarding official development assistance for as far ahead as possible, and that development assistance organizations in the United Nations system should try to provide long-term finance, including multi-year pledges.[16] But the prospects for an international tax for financing development remain distant, and this may be due, at least in some degree, to the implications of such a tax for changes in the present institutional arrangements for development assistance, which remain firmly in the control of the developed countries.

(C) Implications of the NIEO for Policy

It appears evident from the above discussion that each of the main issues involved in the NIEO approach to the development problem involves both mutual interest and divergent interest aspects, and that the two interact. Generally speaking, the mutual interest aspects of an issue tend to become relatively more prominent when improvements are being considered in the functioning of existing institutions. Examples of this would include the benefits for both developed and developing countries

to be derived from a reduction in protection, and from a "massive transfer" of financial resources to developing countries. On the other hand, as far as proposals for institutional change are concerned—and especially where these would result in a more effective participation of the developing countries in the management of the international economic system—then perceived conflict of interest tends to become the dominant feature.

Conflicts of interest arise on particular issues for a number of reasons. There are, for example, conflicts between sectional interests and, frequently also, between short-term and longer-term considerations. In addition, there is an underlying and more fundamental factor making for divergence of interest, namely, the need—as perceived by the principal developed market-economy countries—to preserve their traditional dominant role in the world economy by maintaining effective control of the key international economic and financial institutions, thus enabling them to determine the "rules of the game" governing international economic exchanges. Since the NIEO proposals are concerned essentially with reforming the existing institutional framework of international economic relations, it is not surprising that they have made little headway, since they would involve a significant shift in the balance of control of the system.

A recent perceptive analysis by Hansen of the present stalemate in negotiations on NIEO issues identifies two principal reasons for the low priority given to such issues by the United States Administration. One is the dominant view in the Administration that the existing international economic system does not require "structural reform" or alterations in the "rules of the game." The other is that NIEO issues are regarded essentially as peripheral to concerns of national security (or broad national) interest.[17]

In sum, it might be said that while the NIEO proposals for structural and institutional reform imply the existence of mutual interests, the scope for such reform is severely constrained by the fact that the present institutional framework reflects the existing power structure in the international economy, changes in which tend to be strongly resisted by the dominant economic interests of developed market-economy countries. As indicated

earlier, proposals for institutional change which involve a significant reduction in the present degree of control by the developed market-economy countries over the working of the international economic system engender a fear on the part of these countries that such change would reduce their share of the benefits derived thereform. For this reason, above all, the developed market-economy countries have tended to relegate the consideration of NIEO issues to a low place in their policy priorities, a tendency which has become accentuated with the deepening of the economic crisis in these countries and the consequent focus of policy on short-term economic problems.

The NIEO proposals offer one path towards a solution of the underlying disequilibrium in the world economy. By promoting the industrialization of developing countries and a "horizontal" interchange of manufactures between developing and developed countries, they would accelerate the growth in world trade, as well as strengthening the economies of both groups of countries. On the other hand, resistance to reform of the lines envisaged by the NIEO will result in a disproportionate part of the burden of global adjustment to the economic crisis being placed on the economies of developing countries. Though such a policy would preserve the dominant position of the developed market-economy countries, at least in the short run, it would severely undermine the development efforts of developing countries and make even more difficult the attempts by the developed market-economy countries themselves to overcome their economic crisis.

Meaningful changes in the international economic framework on the lines envisaged by the NIEO approach are, however, not likely to come about of their own accord, as the result of the "normal operation of market forces". On the contrary, they will require for their achievement far greater bargaining strength and negotiating expertise on the part of the developing countries than they now possess. This is a process which has to evolve over a period of time as a result of closer economic co-operation among developing countries themselves – itself a major element of the NIEO programme.

Any realistic assessment of the prospects for improving the bargaining strength of the developing countries must take account of the energy issue, and of the impact of the rise in real

oil prices on the incomes and balance of payments of oil-importing developing countries. This problem has been recognsied by the OPEC countries, which have established a Fund for helping other developing countries to meet their current account deficits and to accelerate their development process. If, in addition, new institutional arrangements could be devised to channel the liquid funds of the oil-exporting countries in balance-of-payments surplus directly into productive investment in other developing countries, while providing the oil-exporting countries with adequate guarantees for the real value of their investment and returns, this would be a step of major significance in enhancing the economic strength—and thus the bargaining power—of the group of developing countries as a whole.

While greater bargaining power on the side of developing countries would seem to be an essential prerequisite for meaningful structural and institutional reform in the international economy, the process of change would be facilitated and expedited by a greater awareness among developed country policy-makers of the economic benefits that would be likely to accrue to their own countries from such reform. The question is whether the attraction of such benefits, real though they may be, is likely to outweigh the disadvantages, as perceived by those policy-makers, of a reduced role in the management and control of the system.

References

1. Resolutions 3201 (S-VI) and 3202 (S-VI) containing the Declaration and the Programme of Action on the Establishment of a New International Economic Order, and resolution 3281 (XXIX) on the Charter of Economic Rights and Duties of States.
2. General Assembly resolution 2626 (XXV).
3. The critiques made by a number of commentators (*e.g.*, Richard N. Cooper, "A New International Economic Order for Mutual Gain," *Foreign Policy*, No. 26, Spring 1977) of financial transfers from developed to developing countries as part of the NIEO thus miss this central point.
4. For a useful analytical discussion of various alternative forms of the "massive transfer" proposals, see Richard Jolly, "Restructuring out of recession", *IDS Bulletin*, January 1980.
5. Conference resolution 93 (IV).

6. *North-South : A Programme for Survival* (London, Pan Books, 1980), chap. 9.
7. For an analysis of the impact of commodity price rises on industrial activity in the developed countries, see Nicholas Kaldor, "Inflation and Recession in the World Economy," *Economic Journal*, 86, December 1976.
8. Such opposition appears to have been a significant factor in the long delay—over a decade—in negotiating the International Cocoa Agreement.
9. Price-raising agreements (such as, for example, the original International Coffee Agreement, 1962) supported by developed countries will certainly involve an element of aid. Similar manipulation of the market by producers alone would, however, reflect solely their oligopsonistic market power. As regards the misallocation of resources, it is doubtful whether a valid general case can be made, since any misallocation resulting from a price-raising agreement would have to be compared with the misallocation that would have occurred as a result of price fluctuations and other manifestations of the "normal operation of market forces."
10. The data presented by G.K. Helleiner (*World Development*, 1978, Vol. 6, No. 4) on intra-firm transactions in United States primary commodity imports, reveal a very high degree of control by transnational corporations in United States imports of a number of important commodities exported by developing countries.
11. For further discussion of these issues, see *Marketing and distribution of primary commodities : areas for further international co-operation* (TD/229/Supp. 3), Manila, May 1979.
12. For a quantitative assessment of the Tokyo Round tariff reductions on the trade of developing countries, see *Assessment of the results of the multilateral trade negotiations* (TD/B/778 and Add. 1, Geneva, Feb. 1980).
13. For a detailed argument of this point, see GATT, *Trade Liberalization, Protectionism and Interdependence*, GATT Studies in International Trade, No. 5, Geneva, Nov. 1977.
14. Proposal submitted to the Trade and Development Board at its eleventh special session, March 1980 (see TD/B/791/Add. 1, annex I), and subsequently to the General Assembly.
15. See, in particular, General Assembly resolution 3202 (S-VI), sect. II.
16. Conference resolution 129 (V).
17. Roger D. Hansen, *Can the North-South impasse be overcome?* Overseas Development Council Development Paper 27, Washington, November 1979

13

Towards a New International Economic Order

MANMOHAN SINGH

Introduction

At its Sixth Special Session held in April-May 1974, the United Nations General Assembly adopted a declaration and a programme of action for the establishment of a New International Economic Order based on "equity, sovereign equality, common interest and co-operation among all States, irrespective of their social and economic systems, which shall correct inequalities and redress existing injustices, make it possible to eliminate the widening gap between the developed and the developing countries and ensure steadily accelerating economic and social development and peace and justice for present and future generation."[1]

2. The proceedings of the 6th Special Session of the General Assembly might suggest that the demand for the establishment of a New International Economic Order is of recent origin. However, students of international economic relations in post-war years know that in substance this demand has been voiced by representatives of developing countries in all international forums since the first session of UNCTAD in 1964. The various resolutions adopted by UNCTAD and its subsidiary organs since 1964, often in the teeth of strong

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opposition by developed countries, contain a systematic account of the various elements of the programme of action for establishing a New International Economic Order. The progress of ideas in this arena and the growing intellectual support for the elements of the action programme are a powerful tribute to the pioneering sense of vision, courage and dedication of Dr. Raul Prebisch, the first Secretary-General of UNCTAD.

3. When the developed countries were confronted at the 6th Special Session of the General Assembly with the demand for acceptance of an action programme for the establishment of NIEO, they could not say that they were not familiar with the various elements of the action programme. What was new in 1974 was not the action programme itself but a strong feeling among the developing countries that faced with a severe energy crisis, the break-down of the Bretton Woods monetary system, the co-existence of unusually high rates of inflation and unemployment in developed countries and the manifest bargaining power of OPEC, the developed countries would be more responsive to the persistent demands of the Third World than they were in the past. It was hoped that in the changed circumstances they would be more willing to co-operate with the developing countries for establishing more effective and equitable rules of the game for the regulation of flows of international trade, money and capital.

4. These expectations have unfortunately not been fulfilled. Before I go on to describe the reasons as to why only marginal progress has been made in implementing the NIEO action programme, it is necessary to set out briefly the basic elements of the action programme and the response of various groups of countries to it. Such an analysis will help us in understanding the reasons for extremely slow progress in the implementation of NIEO proposals.

The Basic Elements of NIEO

5. The demand for a New International Economic Order is basically a demand for more efficient and equitable management of inter-dependence of the world economy. The advocates of NIEO accept the necessity and inevitability of interdependence. What they seek to negotiate relates to the terms of

inter-dependence. The objective is to create an external economic environment conducive to accelerated social and economic development in the countries of the Third World and to facilitate the pursuit by these countries of an autonomous path and style of development suited to the genius of their people. To achieve these objectives, it is necessary to bring about basic structural changes in the functioning of the international trading and credit system so as to introduce greater balance and symmetry in the benefits that flow from this system to the developing and the developed countries. Thus, new rules of the game have to be devised to facilitate a more equitable allocation of the world's productive resources in the interest of faster growth of the developing countries. While the champions of NIEO lay stress primarily on accelerated growth of the countries of the Third World, the underlying assumption is that the type of restructuring of international economic relations implicit in the NIEO proposals is a positive sum game which is in the longer term interest of both developing and developed countries alike.

6. The basic philosophy of NIEO is frankly interventionist. It involves interference with the working of the free market forces both at the national and the international level. The advocates of NIEO emphasise that accelerated growth in countries of the Third World requires massive structural changes in the operation of the domestic economy of these countries and further that these structural changes in turn require both a vigorous mobilisation of domestic resources as well as institutional reforms so as to ensure a more productive and equitable use of these resources. While positive domestic policy measures are a necessary condition of any sustained acceleration in the pace of development, the NIEO proposals emphasise that the effectiveness of domestic policy measures can be greatly influenced by the external economic environment faced by the developing countries.

7. The NIEO proposals recognise that, in the present day world, external trade cannot be expected to be an engine of growth and also that sustained development must, therefore, be rooted in the discovery of some other leading sectors in the domestic economy. If in spite of this recognition, the reform of the international trading system figures most prominently in the

NIEO proposals, it is due to an awareness that a steady and orderly expansion of international trade can greatly facilitate the process of structural change and accelerated growth. In a large number of developing countries, exports form a significant proportion of the country's national income and account for a major proportion of government revenues. As such, the overall sluggishness and instability of export earnings can have profound effects on the functioning of the economy as a whole. There are, of course, some large developing countries where exports form only a small part of national income. However, experience shows that even in such countries export growth is often necessary so as to pay for essential imports whose volume inevitably increases in the process of development. Thus export growth, being a major determinant of a country's import capacity, can have a significant impact on the overall growth of the economy. It is for this reason that a reform of the international trading system gets priority attention in the NIEO action programme. The NIEO proposals also stress that notwithstanding increased emphasis on self-reliance, developing countries will need larger inflows of both financial and technological resources from abroad to achieve an adequate growth rate. For this reason, a reform and restructuring of the international markets for capital, money and flow of technology also figures prominently in the NIEO proposals.

8. It is a basic assumption of the NIEO action programme that the trade needs of the developing countries cannot be adequately met by adherence to the GATT rules of a non-discriminatory multilateral trading system with its emphasis on most favoured nation treatment and on reciprocity in trade negotiations. The emphasis in NIEO is on the principle of differential and more favourable treatment on a non-reciprocal basis for the developing countries so as to enhance their access to markets of developed countries and thereby increase their share of world trade. This requires both removal of existing trade barriers as well as positive international action to increase export earnings of the developing countries. As part of such positive action, the NIEO proposals call for an active intervention in the commodity markets *viz.*, the international commodity agreements to secure stable, just and remunerative prices of primary products exported by the developing countries.

In the area of manufactures, the emphasis is on redeployment of world resources in the light of dynamic comparative advantage. To facilitate a more rational international division of labour, developed countries are asked to remove tariff and non-tariff barriers which affect exports of developing countries and in particular to modify those features of their tariff regimes which discourage processing of primary products in the developing countries. As is well known, the effective protection for processed primary products implicit in the tariff structure of many developed countries is much higher than may be suggested by nominal tariff rates.

In addition, developed countries are asked to adopt positive measures—such as provision of adjustment assistance to facilitate phasing out of those industries and processes in which the developed world no longer enjoys comparative advantage. Finally, as an extension of the classical infant industry protection argument, developed countries are asked to give preferential treatment to exports of developing countries by adopting a system of generalised non-discriminatory tariff preferences in favour of developing countries. Thus the NIEO proposals seek to shift emphasis from non-discrimination in trade policy to positive discrimination in favour of developing countries as a basic and normal feature of a restructured international trading system. The GATT emphasis on reciprocity in trade negotiations is seen as inherently inequitable since it does not take into account the differences in the level of development as between developed and developing countries.

9. The NIEO proposals also envisage a basic reform of the arrangements for the flow of international capital to the developing countries. The objectives in this area are both to increase such flows and also to strengthen the capability of the developing countries to pursue autonomous paths of development. The existing mechanisms for transfer of capital from developed to developing countries are subject to varying degrees of political control and manipulation which reduce their effectiveness as instruments of genuine development. Bilateral official aid flows are largely influenced by political considerations. Such considerations cannot altogether be rules out in the operations of multilateral institutions in which the system of weighted voting gives the developed countries a disproportionate

influence in the decision making processes. As regards private direct investment, apart from the market power enjoyed by the transnational corporations, there are indications that investment decisions of these corporations can also be influenced by political considerations. The rapid growth of the Eurocurrency markets in recent years and the intense competition among international banks for lending has, no doubt, enhanced the manouvrability of those middle income developing countries which have access to these markets. However, as a result of a rapid increase in indebtedness of several developing countries to international banks, there is a growing degree of nervousness among bankers about the credit-worthiness of their clients. In such circumstances, they are liable to pay due attention to any advice that they may receive from the governments of their home countries (on whom they may have to rely heavily for a bailing out operation in the event of a default on the part of a major borrower). All these factors indicate the role that political considerations can play in influencing international capital flows. To the extent that such considerations are present the international capital transfer mechanisms cannot be relied upon to promote autonomous paths and styles of development. The NIEO proposals seek to reduce the role of extraneous political considerations in international capital transfers and also to secure larger flows on more favourable terms and conditions.

10. In pursuit of the objective of depoliticisation of the international capital transfer mechanism, the NIEO proposals lay emphasis on the adoption of an internationally agreed code of conduct for the operations of transnational corporations in the developing countries. In order to minimise the political influence in the flow of multilateral assistance, stress is laid on giving developing countries a greater share in the decision making processes in multilateral institutions. The emphasis on greater automaticity in official flows is also designed to serve the same objective. Simultaneously, the NIEO proposals envisage a large increase in concessional aid flows from the developed to developing countries.

11. The NIEO proposals also visualise a major restructuring of the international monetary system. Recognising that trading arrangements alone cannot reduce the uncertainty in external

payments to a tolerable limit, they envisage a singe significant improvement in the volume, terms and conditions of balance of payments support made available by the IMF to the developing countries. These proposals also involve the adoption of more equitable and symmetrical mechanisms for the creation of international liquidity, for adjustments of payments imbalances and for ensuring that international monetary arrangements subserve the cause of growth. The proposals for making the SDR as the central reserve asset of the monetary system and for establishing a link between the creation of international liquidity and development assistance are major elements of the NIEO action programme. In order to 'depoliticize' the process of assistance from the IMF, greater role is demanded for the developing countries in the decision making process of the Fund.

12. The NIEO action programme lays considerable emphasis on improving the international market for the transfer of technology so as to give developing countries a freer access at reduced cost to this vital input in their development process. In this context, particular emphasis is laid on the reform of the archaic patent laws, effective control of restrictive business practices of transnational corporations in their dealings with the developing countries and on the need to enhance technological capabilities of the developing countries. Considerable attention is also devoted to proposals involving reallocation of world resources in the area of invisibles such as shipping and transport services and insurance facilities so as to minimise net outflow of foreign exchange from the developing countries on account of invisible transactions.

NIEO and the Case for 'Delinking'

13. As stated earlier, the NIEO action programme accepts the necessity and inevitability of interdependence of the developed and developing world. While the NIEO approach has the general support of most governments in the developing countries, there is a powerful school of leftwing thinking which lays emphasis on 'delinking' rather than increased interdependence for promoting balanced development. This school of thought led by Professor Samir Amin fears that increased links with the advanced capitalist countries will strengthen the

hold of reactionary classes in the developing countries and this will help to perpetuate a pattern of production and consumption inconsistent with sustained and equitable development. Thus, stress is laid on revolutionary internal changes which would strengthen the spirit of national self-reliance as well as collective self-reliance among the developing countries.

14. In so far as 'delinking' is a critique of the effects of unregulated flows of trade and capital, there is a considerable element of truth in it. However, a careful regulation of such flows which may be termed as 'selective delinking' is fully consistent with the NIEO proposals. As pointed out earlier, the basic philosophy of NIEO is itself interventionist and this applies both to domestic policies and international economic relations. Thus it is perfectly open for a developing country to contain the harmful effects of an unregulated flow of trade and capital through selective intervention and yet secure positive benefits from participation in the international economy. It is, of course, possible that even 'selective delinking' will strengthen domestic interests allied to international capitalism and a move towards a more equitable pattern of development along socialist lines may be resisted by this class and its international patrons. However, it is far from clear that such a delinking, even if feasible, will necesarily give rise to a regime which is genuinly interested in autonomous and more equal type of development. The character of a regime in a developing country depends on a large number of factors and one cannot predict the consequences of complete delinking or selective linking. In practice, complete delinking is merely a theoretical possibility and is not a practical proposition. In the twentieth century, USSR and China are obvious examples of 'delinked' development but in both these cases delinking was forced on them by the hostility of capitalist countries and was not an act of conscious choice on their part. There is a good deal of validity in the 'delinkers' emphasis on national self-reliance and collective self-reliance in the form of greater economic co-operation among developing countries. However, it should be possible to marry these strategies to a selective type of linking envisaged in NIEO so as to maximise their combined effectiveness as instruments of development. Moreover, the rise

of socialist countries as a significant trading entity and an important source for the transfer of technology creates new opportunities to reduce the possible harmful effects of a 'selectively linked' development strategy.[2]

The Implementation of NIEO Action Programme

15. It is, no doubt, true that progress in implementing the NIEO action programme has been extremely disappointing. Whether it is international trading system or the arrangements for money and credit, only a few steps of limited marginal significance have been taken.

16. In the area of trade, no worthwhile progress has been made in restructuring commodity trading arrangements in accordance with the NIEO proposals. The implementation of an integrated programme of commodities as evolved by UNCTAD which contains the substance of NIEO proposals in this area has been extremely tardy. A principal element of this programme is the establishment of a Common Fund for financing of buffer stocks and international commodity arrangements designed to stabilise export earnings around a growing trend. After several years of negotiations, agreement was reached in June 1980 to establish a Common Fund with resources of $ 750 million (without any time-table for replenishment). Whether such a Fund which is a pale shadow of the original Fund of $ 6 billion can really play a catalytic role in the formation of new agreements or in providing adequate price support in markets dominated by strong oligopolistic buyers is at best highly uncertain. As regards international commodity agreements, there is no evidence of strong positive action in expanding their role. Apart from the agreements for tea, coffee and cocoa which existed even before negotiations started, only sugar and rubber agreements have been re-negotiated. As regards diversification and local processing of primary raw materials, the structure of tariff in developed countries—with effective protection escalating with the stage of production—continues to be a serious barrier. In addition, tariff cuts on primary products of export interest to developing countries in MTN negotiations were for below the average reduction of 33-41 per cent. Several tropical products where developing countries' exports compete with

those of developed countries did not figure in tariff reductions. The only positive feature of the commodity markets is the liberalisation by the IMF of its compensatory financing facility in 1975 and again in August 1979. Thus the maximum limit on drawings which was raised to 75 per cent of the quota in 1975 was further raised to 100 per cent, invisibles from tourism and migrant remittances were included in export earnings and the annual ceiling of 50 per cent on drawings in any 12 months period was removed. However, the IMF has still not accepted the demand to calculate export shortfalls in real terms *i.e.*, after allowing for the rise in import prices and financial support continue to be related to quotas rather than to actual shortfalls.

17. Exports of manufactures from the developing countries have grown rapidly in the last two decades. However, their share of world trade or of imports into the developed countries is still very small. Although developing countries' demand for differential and favourable treatment has been accepted by adding an enabling clause to GATT, in practice this concession has proved to be of very limited value in the MTN negotiations. Tariff reductions for manufactures of export interest to the developing countries average less than 20 per cent, much lower than the average reduction of 33-41 per cent. Moreover, the reduction in MFN rates has eroded the real value of GSP even though the GSP itself is likely to be extended for another ten years. The erosion in the GSP benefits has not been made good by enlarged product coverage, removal and enhancement of GSP ceilings, and adjustments in preference margins where GSP imports in developed countries are not duty free. As regards non-tariff barriers, agreements have been reached in the MTN for codes on subsidies and countervailing duties, customs valuation, import licensing, technical barriers to trade and government procurement. These agreements, however, have not been accompanied by a code on safeguards which is of vital interest to developing countries. In the area of restrictive business practices, a positive achievement is the adoption in April 1980 by the UN Conference on Restrictive Business Practices of a set of multilaterally agreed equitable principles and rules for the control of restrictive business practices. These

rules are expected to be adopted by the UN General Assembly at its 35th Session.

18. As regards the vital area of energy, no advance has been made in working out viable arrangements for equitable supply and pricing of oil. The world oil markets continue to be characterised by exceedingly high degrees of uncertainty, volatility and unpredictability. These developments have led to a considerable further deterioration in the external economic environment faced by the oil-importing developing countries. No arrangements have been made to enable oil-importing developing countries to cope with their mounting balance of payments deficits in the wake of the second oil price hike in 1979-80 and to safeguard the integrity of their development programmes. The world Bank has expanded its role in financing development of energy resources in developing countries. However, the resources available greatly fall short of needed investments.

19. In the area of transfer of technology, the only significant developments are the efforts being made by the U.N. Commission on Transnational Corporations in drawing up a code of conduct setting out comprehensive standards of behaviour of these corporations and of their treatment by the host and home governments. In addition, negotiations are also being held on the code of conduct for technology which would establish a general and universal legal framework for an adequate transfer and development of technology with a view to strengthening the scientific and technological capabilities of developing countries. Also, under revision is the Paris Convention of Industrial Property-a task undertaken by a conference under the auspices of World Intellectual Property Organisation. In 1979, agreement was reached for the establishment of a U.N. financing system for science and technology for development, beginning with an Interim Fund designed to supplement the resources of developing countries. The long range financial system is being examined by an Inter Governmental Group of Experts.

20. These initiatives in the area of transfer of technology are welcome. However, judging by the experience of the U.N. Code of Conduct for Linear Conferences, it will be several years after their formal adoption that such codes of conduct become

effective. As such, they have not much practical significance for regulating the flow of technology in the near future.

21. Finally, in the important area of money and finance, no major structural breakthrough has taken place. The flow of official development assistance is nearly half of the 0.70 per cent of GNP target accepted internationally. The available trends do not suggest any significant improvement in this ratio in the near future. Nor is any major advance in sight regarding greater predictability and certainty of such flows. The climate for untying official aid or for financing local costs or for providing programme assistance has in fact deteriorated in recent years as several donors have succumbed to domestic pressures to use aid increasingly as an instrument of export promotion. As regards the terms of aid, the agreement in March, 1978 to improve retroactively the terms of ODA debt in favour of low income countries has led to some alleviation of debt burden even though its impact has been rather limited since the coverage of beneficiaries and modalities of debt alleviation have been left to the discretion of donors themselves. The only positive features in the current situation are the agreement on the 6th replenishment of IDA, the agreement on the enlargement of the capital of the World Bank and the move to change the gearing ratio of the World Bank from 1:1 at present to 2:1, thereby enhancing the Bank's lending capacity. However, the general capital increase has yet to obtain legislative approval from the Bank's largest shareholder, the USA. Also, the outcome of the proposal to change the Bank's gearing ratio is still very uncertain.

22. In the international monetary field, after the collapse of the Bretton Woods system, negotiations on the design of a new system have proved to be extremely difficult. Currency markets have taken over the task of adjusting exchange rates though all this is supposedly subject to IMF surveillance. While in the present stage, exchange flexibility is considered unavoidable, there is increasing evidence that excessive reliance on market forces can produce a pattern of exchange rates which need not bear any firm relation to underlying economic conditions. Thus, excessive exchange rate fluctuations and uncertainty continue to pose a major problem. Under the present system, there is no firm control of international liquidity.

The volume of international liquidity and its distribution among countries do not respond to any rational criteria. Although after seven years, the IMF has allocated SDRs worth $12 billion during 1979-81, they account for less then 2 per cent of the world stock of liquidity. The price of gold has arisen steeply and this has greatly added to the liquidity of countries (mostly developed countries) holding a large part of their reserves in gold. Movements in international liquidity continue to be greatly influenced by the activities of the private capital markets, particularly the Euro currency markets. The only positive gains have been the 6th and 7th quota reviews enlarging the IMF, quotas and the reluctant recognition by IMF of the structural character of the balance of payments deficits of the developing countries. The establishment by the IMF of an Extended Fund Facility to provide assistance for correcting structural imbalances and its recent liberalisation to enhance the repayment period to 10 years are an indication of a welcome shift in IMF policies. However, the overall management of the international monetary system continues to be guided mostly by *ad hoc* considerations rather than by any long run design of a truly internationally managed system.

The Prospects of NIEO

23. The foregoing account brings out the extremely disappointing pace of progress in implementation of the NIEO programme of action. However, given the present state of world polity and balance of power, this outcome is not surprising. The establishment of NIEO calls for a reassessment of the traditional hegemonic roles of major developed capitalist countries. It is well known that countries, like individuals, do not find it easy to give up voluntarily a part of the power and influence they may enjoy at any given moment of time for the long run interests of humanity as a whole. It is, therefore, understandable that both at the intellectual and political level, the developed capitalist countries have used all sorts of devices to discredit NIEO proposals. Thus, powerful intellectual resources were mobilised to show that the NIEO proposals were exceedingly clumsy, ineffective and inefficient means of securing their objectives. A good deal of effort was spent to prove that there

was nothing wrong with the international economic system and that if some developing countries had not made progress, it was due to their own mismanagement and in particular due to pursuit of excessively inward looking, illiberal and autarkic economic strategies.

24. Although arguments of this type still continue to be advanced, their effectiveness is now recognised to be very much in doubt.[3] It is now widely realised that practical prescriptions derived from the neo-classical trade theory lack the general validity which has often been claimed for them. Thus the existence of market imperfections, risk, uncertainty, imperfect information, costs of adjustment from one pattern of resource allocation to another, dynamic and developmental effects of alternative patterns of allocation and change and income distribution consequences of alternative policies cast serious doubts on the optimality of the rules of the game underlying the present international economic system. Moreover, when it is recognised that a very large part of world trade in manufactures takes place on an intra-firm basis and also if one takes into account the visible evidence of exercise of market power by the transnational corporations in the marketing and distribution of a number of processed primary products, it is hardly convincing to argue that such privately regulated production and trade produce socially optimal results. In face of such manifest exercise of private market power, regulation—whether at the national level of through an international arrangement—has a strong intellectual justification.

25. As a result of the progress of ideas, the intellectual defence of the established economic order has been greatly weakened. This is evident from the fact that the Brandt Commission ended up by endorsing most elements of the NIEO programme of action. There is also growing evidence that developed countries do not at all hesitate to resort to regulation and controls if the operation of market forces leads to an undesirable outcome. While most of them continue to be opposed to international commodity arrangements, they have taken active steps to organise and control markets in manufactures, such as textiles and shoes in which developing countries may have a comparative advantage. Moreover, until the oil crisis of 1974, it used to be fashionable in these countries to

decry and denounce structural explanations of the balance of payments deficits of the developing countries. However, as the oil prices quadrupled in 1973, there were loud cries that the oil deficits were structural in nature and had to be financed rather than adjusted in the interest of world prosperity as a whole. The IMF oil facility set up in 1974 was a by-product of this new awareness of the structural elements in payments deficits. This awareness has persuaded the IMF to liberalise its traditional attitudes in dealing with the payments imbalances of developing countries, a process which has been greatly helped by the leadership provided by Mr. J. De La Rosier, the present Managing Director of the IMF and his predecessor, Dr. Witteeveen.

26. Even though the intellectual respectability of many of the NIEO proposals is now assurred, the path of reform is not likely to be smooth or rapid. This is basically due to the weak bargaining power of the developing countries *vis-a-vis* the developed countries. Among the developing countries, it is only the OPEC group which has acquired greater bargaining power *vis-a-vis* the industrial countries. And despite the growing emphasis on the solidarity of the Third World, OPEC countries have not been willing to use their new found bargaining power to force the developed countries to make meaningful concessions on issues relating to the establishment of NIEO. Perhaps, this is because OPEC itself is not as united as one may imagine. The recent Iran-Iraq conflict is an indication of the limits of OPEC action. So long as such leading OPEC members as Saudi Arabia continue to be linked closely with the advanced capitalist countries, the OPEC bargaining power cannot be relied upon for the establishment of NIEO.

27. The emergence of Socialist countries as a significant factor in the world economy has helped to reduce somewhat the hegemony enjoyed by the advanced capitalist countries in the international trading system as also in the markets for flow of technology and credit. Opportunities for trading with these countries as also opportunities for import of technology and capital have enabled developing countries to improve their bargaining power in dealing with the advanced capitalist country. However, the economic relations between developing countries and Socialist countries have not grown to a point as to erode

very seriously the position of eminence enjoyed by advanced capitalist countries in trade, capital flow and transfer of technology. At the international level, socialist countries of Eastern Europe have been frankly unenthusiatic about any international programme which requires them to make proportionate sacrifices together with other developed countries for the establishment of NIEO. Thus these countries have consistently rejected any notion of international responsibility on their part to contribute a specified proportion of their national income as development assistance. Their argument has been that not having had any colonies, they owe no obligation to make such contributions which they regard as being in the nature of reparations. Their unwillingness to contribute their share of external assistance as part of an internationally agreed arrangement has in turn provided a convenient handle for hardliners among Western powers to disown their own obligations. Thus unlike the movement for decolonisation which received powerful support from the socialist countries, their unenthusiastic response to the demands for NIEO has considerably weakened the impact of any pressures that developing countries may be capable of bringing on the advanced capitalist countries. Perhaps, the unenthusasitic response of Socialist countries is also rooted in their suspicion that NIEO proposals, if implemented, would strengthen the hold of Western capitalism on the developing countries.

28. All this, however, does not mean that the situation is entirely hopeless and that the struggle for NIEO is futile. Notwithstanding unfavourable prospects in the near future, there are reasons to believe that sooner or later developed countries will have no option but to negotiate the new rules of the game. The events of last few years have created in the developed countries a growing concern about the security of supplies of sensitive materials. This is due to the emergence of inflation as a major problem in the developed countries, a growing realisation that many natural resources are finite in supply and the actions taken by OPEC and a few other producers' groups to restrict exports. The concern with the security of supplies will increase as more and more developing countries take control of their material resources. There is thus a danger that in the absence of effective international dialogue

and understanding, the pace of expansion of investment and production of these raw materials may produce a highly uncertain balance of demand and supply. In such an environment viable commodity arrangements may well constitute an effective instrument for an orderly adjustment of demand and supply and for ensuring a minimum security of supplies.

29. In addition, the sustained pressure for a more interventionist commodity policy is likely to hasten a further liberalisation of the compensatory financing facility of the IMF and other similar mechanisms such as under the Lome Convention. In the sixties, a powerful group of neo-classical economists tried very hard to show that export instability did not constitute a serious barrier to sustained development. However, unlike commodity agreements, neo-classical economics has never been able to provide any respectable arguments against compensatory financing arrangements designed to finance reversible export shortfalls. This is probably one explanation of the progressive liberalisation of the IMF's compensatory financing facility since its inception in 1963. I expect this trend to persist.

30. As regards the trade in manufactured goods, the immediate prospects are certainly not very favourable. On account of persistence of high rates of unemployment, the protectionist, sentiment has, no doubt, gained in strength in several developed countries. However, one should not overstate its strength. So far, the protectionist sentiment has affected exports of only a few labour intensive products. As the developing countries' importance as a market for manufactured goods grows, they will acquire more effective countervailing power in their negotiations with developed countries which may in turn accelerate the removal of tariff and non-tariff barriers affecting their exports. Moreover, the growing indebtedness of the developing countries is also likely to strengthen the pressures for liberalisation in the developed countries. After all, it is only through increased export earnings that developing countries can hope to service their external debts.

31. The future evolution of the international monetary system is highly uncertain. Given the present distribution of economic power between the U.S.A., the E.E.C., Japan and OPEC, it is unlikely that a well structured international monetary system, comparable in its design and sweep to the

Brettonwoods system, can be evolved through negotiations. The world will, therefore, have to live for quite some time to come with loosely defined guidelines rather than rigidly enforcible rules. Despite considerable support, the SDR is unlikely to emerge as the central reserve asset. The trend is more likely to favour a multiple reserve asset system than a SDR centred monetary system. As a result, the proposal to establish a link between SDR and development assistance faces an uncertain future. At the same time, given sustained pressure from the developing world, the IMF can be persuaded to play a larger supportive role in development efforts. The IMF can be expected to provide the developing countries both larger amounts of resources and over longer periods than in the past. The emergence of OPEC as a persistent surplus group will help to reduce the hegemony hitherto enjoyed by the developed countries in the decision making processes of the IMF.

32. One can discern similar hopeful signs in the evolution of the international mechanisms for transfer of long term capital. Already, the rapid growth of Euro-currency markets in recent years has enhanced the margin of manoeuvrability enjoyed by some middle income developing countries in dealing with their traditional donors. Moreover, the fact that developed countries have lost their once dominant position as suppliers of funds to the international financial institutions is likely to assist the process of democratisation of these institution which developing countries have been insisting upon for a long time.

33. However, it would be wrong to assume that the process of restructuring of international economic relations is going to be a smooth or easy affair. One should not expect developed countries to give up easily their present privileged position in the management of the international economic system. The Third World will have to make sustained united efforts to secure meaningful reforms. In this context, the proposal to set up a Third World Secretariat so as to evolve a well coordinated common strategy for the Third World in international negotiations deserves active support.

34. The road ahead is going to be long and difficult. But that was also the case with the struggle for political decolonisation. The process of decolonisation which began with the independence of India in 1947 has only recently been completed

with the emergence of an independent Zimbabwe. There is no reason to believe that the process of economic decolonisation—for that is essentially what NIEO is about—is going to be less arduous. But that is no reason for going up the struggle for a more just and equitable distribution of the World's productive resources. The developing countries must persist in their struggle. However, the demand for a new international economic order will acquire greater intellectual and moral support if the developing countries take firm and determined measures to deal with the inequities and inequalities inherent in their domestic systems and also evolve an effective programme of collective self-reliance based on increasing economic co-operation among themselves. These challenges must be met regardless of the outcome of the struggle for NIEO. However, a success on these fronts is bound to create a more favourable climate for the implementation of NIEO action programme.

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14

Global Challenges and the Need for International Co-operation

WILLY BRANDT

I

I should like to begin by thanking the Association responsible for organizing this Conference, and also the Hungarian Government and the Institute for World Economy of the Hungarian Academy of Sciences.

The subject of this Conference is Europe's contribution to a new world economic order and thus to North-South relations, *i.e.*, relations between the industrialized and the developing countries. The participants at this Conference include representatives from the different parts of Europe, and the fact that the Conference is for the first time being held in the capital of one of the CMEA, or Warsaw Treaty countries, would seem to me to be a promising sign. It could be a symbol, representing some small measure of progress along the road towards objective co-operation between participants in the East, the West and the South—which is the only possible platform for solving a whole series of problems besetting the world.

East-West relations remain strained and distorted by the arms race, while extremely uneasy North-South

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relations rule out any possibility of ending the scandalous injustice suffered by millions of innocent human beings; these two sets of relations are intertwined in a manner that is as disastrous as it is complex. Hostility between the major nuclear powers, combined with the arms race, also endangers nations that are quite uninvolved in this rivalry and brings tension to the whole world, enveloped in the web of military and strategic networks. As a result, the developing countries are prevented from enjoying what is rightfully their share of the earth's riches, while on the other hand the industrialized countries of the North—in both the East and West—are not sufficiently able to stop the wastage of natural resources and the desolation of our planet—both in the North and South. Nor are they in a position to stimulate growth in the developing countries, even though this would further their own economic well-being. This situation will appear completely absurd to future historians—should there be any; they will find the present-day world's inability to act quite incomprehensible. I would add that the millions and millions of people on the earth who quite undeservedly live in poverty and go hungry because of this same inability to act, will come increasingly to realize the absurdity of their fate and many will be filled with hate as a result.

To quote a Head of State whose shoulders bear a heavy responsibility:

> If we can succeed in our main duty, which is to avert another world war, and ensure lasting peace, the peoples of the world will be presented with new and marvellous prospects. It will then be possible to solve the many other vital problems at present confronting the whole of mankind.

What are these problems? For one thing, there is the need to provide a vast number of human beings with food, raw materials and energy since, according to present calculations, the world population will increase from four to six billion between now and the end of the century. There is also the need to make good what is termed "the backward economic development that colonialism has been responsible for in the

countries of Asia, Africa and Latin America." Lastly, there is the need to protect people from the many dangers caused by "the uncontrolled pursuit of technical progress, in other words, the need to preserve nature for the benefit of mankind."

These words were spoken by Leonid Brezhnev, and I am in broad agreement with him on this point, in particularly because he links up the above-mentioned tasks and quite clearly sees them as a combined process. Our understanding of things is being obscured nowadays by the fact that the necessary decisions and corresponding implementing measures are taken quite separately and mechanically and, above all, that interdependent issues are isolated as if they had nothing to do with one another.

This applies to East-West and North-South relations and also to the interdependencies between the two spheres. And it is true of economic, ecological and military questions. Today, it is important to tackle problems in full awareness of their interdependencies, and this we must do together wherever it is already possible—rather than against each other.

II

Why is it so urgently necessary to find an integrated and to a large extent common solution to problems? The answer is that problems and, above all, dangers are becoming more and more global in nature, with the result that the different regions of the world are becoming increasingly interdependent.

By this I mean that the problems that countries have to overcome, irrespective of their own domestic problems, political or social systems and membership of this or that bloc, are becoming more and more extensive. They range in fact from energy to ecology, from containing the population explosion to conquering world famine, from effective arms limitation to the finding of new jobs, and from microelectronics to new scientific options which are only just beginning to emerge. Whether such questions are discussed in Boston, Moscow, Rio, Bombay, Vienna or Budapest, everywhere there are people who realize that it is the whole of mankind that is concerned. Expressed in

more topical and specific terms, is it not true to say that the consequences of the world economic recession (if that is all it is) are already effecting us, whatever our country's system, more than any of us would wish?

With major problems becoming more global in nature, interdependence between countries and peoples is likewise growing. In the first place, these problems are everywhere the same or similar in essence, and thus affect all regions of the world. Secondly, the extent to which these problems are solved in this or that region or, being unsolved, develop into dangers, determines the situations in other regions, and is in turn affected by `that situation. When a danger emerges in a particular region, whether it is a military danger, an economic danger caused by inflation and underemployment, environmental pollution or wastage of resources, or a social danger caused by hunger or an excessive increase in population, ultimately it always affects other regions. The objective threat posed by the arms race now concerns all regions of the world, without exception.

Ecological interactions are also becoming more and more global. The depletion of the world's forests—to take one example—is due primarily to reckless economic interests and, more recently, to oil prices and the fuel shortage; but it is also indirectly the result of engery wastage by the industrialized countries. It will affect the North in various ways, the last stage being when the stripping of the tropical rain forests causes such a reduction in their absorption of carbon dioxide that the whole world is in danger. To take another example, hunger in the poverty-stricken areas of Africa and Asia will ultimately hit the "privileged" parts of the world. Where millions of people are suffering from hunger, peace can no longer be guaranteed—even if only for this reason. After all, it is rather unlikely that people will go on starving to death in silence for much longer.

Global problems call for global solutions, and problems that engender interdependence require common solutions. This does not mean to say that I am against tackling problems on a regional basis; in many bases, on the contrary, it is the only practical way—at least as long as it remains so difficult to draw up international agreements and ensure that common

interests are defended by transnational institutions. However, the regional tasks cannot be handled through power politics but only in a spirit of mutual respect and a balancing of interests. In the areas mentioned, it will be less and less possible to rely on purely national solutions.

Hardly any country is powerful enough economically and sufficiently independent as regards supplies of raw materials to be indifferent to reciprocity of interests—as has been proved in recent years. As for relying on military power, this would seem to me tantamount to an insane attempt to create conditions similar to those of civil war throughout the whole world. These comments concerning nations apply equally to blocs based on alliances and also communities—whether military or economic. The really difficult problems are to an increasing degree those that go beyond specific systems. Admittedly a country's political system and the organization of its economy and society have a considerable influence on its capacity to solve problems; however, a great many issues and dangers are quite independent of the political or social system. Raw material dependence, the risk of environmental pollution and the consequences of technological change are all problems that arise wherever industrialization is advancing. There will always be competition between different views and opinions, system immanent or motivated otherwise, as to the best solution for specific problems—as indeed there should be.

The world is now in a position to go completely its own way taking no account of the other parts of the world. It no longer seems totally fanciful to suggest that a "world domestic policy" is proving necessary—or in some ways inevitable. I am aware of the fact that the thesis of One World, of the global nature of problems and of interdependence of all regions of the world—a thesis which was one of the basic assumptions for the Report of the Independent Commission on International Development Issues under my chairmanship (*North-South : A Programme for Survival*, London and Sydney, 1980, Pan Books; Cambridge, Mass., 1980, MIT Press)—has since on occasion been criticized and called a "myth" in both the West and East, and sometimes even in the developing countries. I have looked at the points made, ready to be self-critical, but I have found nothing to refute my argument. What is more, to me many of

the criticisms rather seem to stem from an unwillingness to face the facts and to discard cherished ideas, egoism and, quite simply, the defensive pragmatism that is characteristic of day-to-day politics.

For instance, we have been confronted with a statement—taken out of context—of an eminent development economist:

> If Africa, Asia and Latin America sank beneath the sea tomorrow, this would scarcely much affect the present or future affluence of Europe or North America.

And this was also true the other way round, it was argued. Quoting this pointed reference one is not doing justice to its author. What is more it is incorrect in this simplified form. We know that the economies of the industrialized countries would collapse without the raw materials supplied by the South, and that the Third World would suffer even more from hunger and poverty without the co-operation of the North. It would, however, be extremely unfair to attribute to Nobel Laureate Arthur Lewis the idea that the countries of the North might in fact not have any reason to alter their policies. In any event, even if the statement is taken from a different angle, the conclusion that emerges is still logically wrong. No region of the world disappears into the sea. All regions continue to exist side by side and it is precisely for this reason that they are compelled to cooperate and reciprocate in terms of their respective vital interests. Global challenges demand global responses. The more the common danger grows the more the search for solutions becomes objectively of common interest. Another premise of our Report was that in the medium and longer term, there are more common or parallel interests—and I like to add here : also between East and West especially here in Europe—than most people have so far been able to recognize. A more rapid rate of development in the South also benefits the North.

This proposition, too, has come in for criticism—above all in the West where it has in particular, been charged with being based on a Keynesian view of the world. In fact, this sort of argument has nothing to do with economic theory, but is a new tactic in the attempt to pretend that the world problems besetting us do not exist, or a way of defending a form of international economic policy whereby the weak go by the

board and the strong reap the benefit—for now at least. There is, however, no need to invoke Keynes to show that different regions of the world will not be able for long to indulge in an essentially egoistic economic policy in which interests are wholly opposed. Global dangers are growing and I strongly recommend that they be allowed for in purely economic calculations. On the other hand, there is a clear and positive community of interest which has absolutely no need of an interpretation in terms of economic theory. There can no longer be any questioning the fact that the industrialized countries must now seek to strengthen their economic interactions with the other parts of the world. Any calculation, even if only valid in the medium term, leads to the same conclusion, and it was moreover confirmed by the World Bank in its Report (published in August 1981) on World Development:

> In energy and food in particular, all countries share an interst in raising production in developing countries: here there *is* coincidence between the concerns of industrial and low-income developing countries, as well as those of the middle-income countries.

In this context, I am not afraid of the sober reference to self-interest robbing our demands for reform of their moral character. I mean that there is plenty of room for humanitarian commitment and for helping our fellow men. The world being what it is, moreover, what counts is unfortunately not just the gesture of giving without egotism. In order properly to grasp the importance of the questions to be resolved, it is necessary to realize that, in any but the very short-term view, failing to consider others' interests is to harm one's own.

III

Global and common or complementary responses demand global negotiations. This is why our Commission has proposed the organization of worldwide negotiations between North and South—a request that has been taken up by the United Nations

and which, following the Cancun Summit, may in principle now be safely expected to be met.

After hearing the views of my friends from the developing countries, I consider the Cancun meeting to have been mildly positive. All the participants approved the principle of global negotiations; similarly, the holding of the meeting itself—the first of its kind—represented a considerable degree of "globality" at top political level.

Extreme positions failed to weaken the preparedness to reach an understanding in Cancun : neither the rejection of the principle of global negotiations (which was initially the firm stance adopted by the United States), nor the demands of the developing countries which wanted management by majority in the World Bank and the International Monetary Fund, or else their destruction (claims still sometimes to be heard in recent years).

Progress was also made in Cancun—in principle at least—on two items in our emergency programme : the question of food and the development of a world energy strategy, including the financing of energy projects in those developing countries that do not themselves have the necessary funds. As far as the other two points in the emergency programme are concerned—first, the search for new sources of finance and, above all, the avoidance of the catastrophic financial situations which a number of countries are heading towards and, secondly, the reform of international institutions in the financial, economic and trade fields, Cancun did not contribute very much. When it meets in Kuwait in early January 1982, the Commission of which I am Chairman will issue a critical appraisal concerning both this point and the outcome of the "summit" as a whole.

It is well known that the Soviet Union did not respond to the invitation from the Mexican President and the Austrian Chancellor-the two Vice-Chairmen of the Cancun meeting. This I regretted, but there is nothing to be gained from futile controversy. Sovereign powers, or at least the major ones, know how to look after their interests, though it is true that they too can make mistakes in this respect.

There can be no doubt that in recent years political leaders in the East European countries have come to devote much

more attention to the problems of North-South relations. I have been even more impressed to see to what extent scientists in the West and East—and here I am thinking particularly of the Soviet Union—have in the meantime found themselves on the same wave-length.

IV

Had the Conference on Security and Co-operation in Europe made better progress perhaps it would not have been utopian to have it discuss the role that Europe can play with respect to North-South relations. Attention is at present focusing on the forthcoming nuclear arms talks between the great powers. If these East-West discussions give encouraging results—results which could be built on and consolidated by means of a "conference on disarmament in Europe"—the effects on development policy could well be favourable.

For the time being, we are still having to deal with a considerable number of out-of-date issues. Certain Soviet or CMEA country arguments are known, as are the objections raised by the West, and I do not propose to dwell on them.

The question of who is or is not responsible for the heritage of colonialism is not considered by a good many developing countries to be a very important issue. Their representatives want help not so much in interpreting history as in coping with their future, and they expect this assistance from all the industrialized countries—not just the Western countries in the North. Furthermore, they know that countries such as Sweden and Norway are actually committing themselves—with official development assistance well in excess of the figure of 0.7 per cent of GDP referred to repeatedly at international level—instead of emphasizing their non-colonial past. Quite apart from this, the problems currently facing many developing countries cannot be attributed solely to their earlier colonial status.

What is more, it may very well be considered that official development *assistance* (which, moreover, can be but one of the components of development policy) should be measured against consumption rather than GNP.

Here, as in other instances, it is important to be objective. Just being critical is no help whatsoever. Even so, it is important not to overlook the fact that the aid providing by the CMEA countries is, in the first place, hardly impressive, while secondly it mainly benefits countries which are allied or associated in some way.

With regard to trade, I would assume that Hungary, in joining the IMF and World Bank and, by the same token, making its currency (the Forint) convertible, will build up valuable experience both for itself and probably for others. As far as I am able to judge, it would moreover be to the CMEA area's advantage to establish internal convertibility.

We in the West must not overlook the fact that the Soviet Union has set up an extraodinarily self-sufficient economic system which depends very little on imports of foreign raw materials. It should be added that the country remained politically isolated for a long time, which prevented the weaving of any broad fabric of economic relations. This state of affairs is past history, or at least it could be; moreover, the economic community of countries associated with the Soviet Union will in future depend much more on imports of raw material and, in addition, is having increasingly to contend with the problems that I have described as global.

It is my opinion that, however, difficult it may be in the present circumstances for the East European countries to transfer an appreciably larger volume of capital, they could contribute much more to transfer of know-how—particularly in the capital goods industry.

However, the most important contribution by the Soviet Union and the East European countries could be their long-term participation in the World Food Programme and the World Energy Strategy. I am convinced that both the Programme and the Strategy must go on being developed in such a way as to take concrete form with the collaboration of all the participating countries.

I am well aware of the fact that there are many barriers born of distrust which have to be overcome, and that East-West relations will have to make considerable progress if this vision is to become a reality. My case is, however, that plans for a

better future should be started on without delay. Plans for war are already far too numerous.

Most of the thoughts expressed here would have a quite different significance if it proved possible in the coming years to reduce the burden of arms expenditure and use some of the resources this released for constructive purposes. I have already attempted to show that this would be in the interests of the industrialized countries themselves particularly in the long term.

V

Since the development of strategic nuclear arms, military confrontation in the world has also become global—in three senses. Firstly, they threaten all the countries concerned, secondly they are a potential threat to every part of the world and, thirdly, they are a total threat to each adversary, *i.e.*, to each country's very existence. Whence the interdependence underlying the concepts of deterrence and the balance of power. True it is an ice-cold, almost negative interdependence, but it has prevented the outbreak of world war for the past three decades because it has been respected—or at least because none of the parties involved has been able to break out of it.

Turning this cold interdependence—which is a way for the parties involved to keep each other mutually in check—into positive and constructive interdependence is the idea behind *detente*. *Detente* policy accepts reality, including existing alliances, does not seek to alter power relationship through force and starts from the premise that security must no longer be sought by acting against one another, but with one another. Furthermore, the object of *detente* is to find a balance of interests and to co-operate in foreign policy and economic questions, while another of its aims is not to undermine the independence of smaller allied countries, subject to the major imperatives of security, by using this independence to the detriment of an opponent. Provided it begins to progress again, *detente* will also afford more opportunities to meet the countries of the South halfway and not always to seek to treat or consider them as pieces on the chessboard of East-West confrontation.

Lastly, and above all, *detente* must strive to control arms and prevent them increasing since, there being agreed equilibrium in the balance of power, an arms build-up gives neither party additional security.

Detente is at the same time fundamental to the security of peace, and it is a means of arriving at what, at first sight, only cold deterrence would seem able to achieve. The aim of *detente* is to put an end to conflict via the balance of interests and thus avert any cause of war. In this specific function, *detente* accommodates the military form of independence, and also the fact that security depends nowadays on stability in other countries and on the capacity of the latter to solve their problems.

I am very concerned at present that both factors guaranteeing peace, *i.e.*, deterrence and *detente*, are in danger. Whether deliberately or not, there is a persisting tendency in global confrontation to outwit the opponent in an area which is initially peripheral, or to hurt him in some indirect way—without having to confront his military potential—but nevertheless fundamentally, at economic level, for example, by means of a strategy of all-out arms production. Yet to speculate on the internal collapse of the adversary is to toy with the idea of something similar to a military victory, and that could prompt the corresponding reaction. Furthermore, technological progress in arms has reached a stage where the types of weapon that can now be thought up—and which already exist according to some people—are so "small" and accurate that the propensity to use them for the purposes of a limited conflict could increase. By the same token, there is a greater and extremely dangerous temptation to seek superiority; the temptation can also easily be assumed to exist if data on arms are kept secret to an extent not justified by objective needs.

Effective decisions on arms limitation and real disarmament are more necessary than ever. Similarly, it is more urgent than ever that *detente* should be pursued or resumed, and that its scope should be extended outside Europe.

By this I mean in particular that the concerted policy of the great powers must take account of North-South relations and of the global problems already described. So far, much more

importance has been attributed to the arms race and rivalry between world powers or blocs than to the requirements of development policy and global questions concerning the future. This cannot go on for much longer without resulting in economic and ecological disaster on a world scale which will cause irreparable damage and, at the same time, trigger off international panic which could well increase the danger of war. In other worlds, I am arguing that East-West and North-South questions must be tangibly linked; I want to see a clear connection established between *detente* and disarmament on the one hand, and between development and environmental policies on the other.

In 1981, the world spent, *i.e.*, in fact, wasted more than $ 500 billion on arms. Enormous amounts of capital, labour and intelligence are devoted to preparing the means of mutual destruction.

Global rivalry between the powers extends over the whole world. The problems and disasters the world is headed for are either being ignored or, at best, tackled by weak palliatives. And yet rational solutions are within reach; a fraction of annual arms expenditure would relieve world hunger and enable the developing countries, in the near future, to meet the basic needs of their people.

I have no doubt that the peoples of the world, and also the majority of governments, would be ready to cooperate in setting up a new world order. The obstacles preventing the world becoming a place where peace can flourish are certainly not mutually antagonistic intentions or interests. What has to be achieved is simply to remove distrust between the blocs and show the vision of this new goal as transcending short-term unilateral interests.

15

The Second Brandt Report : A Common Crisis

H.W. SINGER

The need for the second Brandt Report—three years after the appearance of the first—has sought to be explained by Willy Brandt in the introduction to the Report. The reasons given are somewhat complex. Since the first Report was published in 1980, world recession has become worse and the situation for the developing countries has become more critical. It may be noted here that Brandt's introduction pointing this out is dated December 1982, quite possibly the worst point of the recession. Since then, it can be argued—and is argued in some of the industrial countries—that a process of recovery is underway and that the best hope for the developing countries is to benefit from this general world recovery by some kind of a "trickle down" process. To this, in turn, Brandt and his supporters could pose several rejoinders.

The process of recovery in the industrial countries, it can be argued, is by no means certain yet and cannot be relied upon to "trickle down" to the developing countries, particularly to the poorest countries, sufficiently fast and sufficiently effectively. Also much of the damage has already been done and needs repair, even if new damage can be avoided by a recovery. Further, the recovery is generally expected to be only partial and will not return the world to the growth rates of the "golden years" of the 1960s and 70s cut short by the abrupt rise in oil

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prices brought about by the OPEC in 1973-74. This means that the long-term problems discussed in the Brandt Report and the need for special action on behalf of the developing countries will not disappear even in the event of a partial recovery.

Another reason for the second follow-up Report is that the recommendations of the first Report have not been sufficiently heeded and implemented. Some of the recommendations have been implemented, although not necessarily as a result of being put forward by the Brandt Commission, and not always in quite the form and substance proposed by the Commission. Also, the first Report of the Commission included a number of recommendations which were already "in the air" and hence it is not surprising that some have been implemented since.

A third reason for the new Report is the failure of the world summit meeting in Cancun. This meeting had been proposed in the first Report. In fact, some commentators on the first Report—including the author of this article—had criticized the Brandt Commission for making such a proposal which would only delay action and reduce the authority of the Commission itself (which was in fact at one time considered as itself being a world summit). The world summit has come and gone and has, almost predictably, not fulfilled the expectations of the original Brandt Report. In the words of Willy Brandt, it "fell far short of our expectations. It produced no new guidelines, nor any clear impetus for future negotiations. It did not even come close to launching the idea of a world economic recovery programme." No wonder then that it was felt that a new Report might help to provide the impetus which Cancun had failed to provide.

Finally, it was felt that the first Report had been generally too "structuralist," *i.e.*, it was too much concerned with long-term problems of changing the nature and institutions of the global system in the direction of building a "New International Economic Order (NIEO)." Although the original Report also contained a shorter-term "emergency programme," the general trend of the first Report was felt to be too confrontationist in supporting the demands and proposals of the Third World for the NIEO. The second Report is clearly more pragmatic and short-term than the first, based as it is on the emergency programme of the first Report. The change in the subtitles of the

two Reports is characteristic of this difference : the first was sub-titled "A Programme for Survival ;" the second is sub-titled "Co-operation for World Recovery." However, the second report is at pains to emphasize that the longer-term and structural proposals of the first Report have not been abandoned, but rather that problems are too urgent to wait for this and that structural changes can best be achieved by dealing pragmatically with problems which are pressing, and in regard to which there is an obvious coincidence of mutual interests between the industrial and developing countries.

First Things First

The dominant feature of the second Brandt Report is the thought that the crisis has developed in the three years since the first Report, so acutely and so ominously that the world can no longer afford to take the long-run and overall view which dominated the latter and must instead take a number of immediate steps to avoid further deterioration and deal with the immediate crisis. In the words of Willy Brandt himself—again from the introduction to the Second Report—, "Together with my colleagues, I believe in doing first things first." At the same time, the second Brandt Report is very keen to emphasize that the longer-range objectives, and specifically the proposed global negotiations towards the NIEO, have not been abandoned or lost sight of. In fact, the second Report envisages the "first things" which have to be done now as stepping stones towards the longer range objective ; for this reason the second Report does not only deal with the immediate action areas of finance, trade, food and energy, but also includes a section on the negotiating process incorporating suggestions for a second North-South summit meeting, and even looking forward to further summits. If necessary, these summits as proposed by the second Report would not be world-wide, but between say the "like-minded countries of the North" (countries such as Sweden, Holland, Canada) and countries of the South. The hope would then be that in such comparatively limited circle, agreements would be easier to reach, and once they are reached, they could hopefully be broadened to include others in due course. At the time of publication of the second Report, considerable hope

was placed on UNCTAD VI ; these hopes, of course, have already been belied by the negative result of the July 1983 Belgrade meeting.

While the continuing emphasis on longer-term objectives, global negotiations, summit meetings, etc., was, no doubt, felt to be necessary to maintain the image of the Brandt Commission as speaking for the South, it obviously does not help in increasing the support which the second Report can expect from the Northern countries, specially the known "hard-liners" such as the United States, the United Kingdom and West Germany. There may be a number of things among the proposals in the second Report which these countries might be quite ready to discuss as useful measures by themselves, on the assumption that any agreement would foreclose further discussion, whereas they might be more reluctant to discuss these matters, if they are just presented as stepping stones towards, a NIEO, and if, consequently, the solution of one problem simply opens up a new discussion on other problems of the NIEO. This may be an unfair way of looking at the principle of "first things first," but this no doubt will be the way things will appear to major industrial countries.

Finance

It is no accident that finance is placed first among the four priority areas of the second Brandt Report. Finance is given 62 pages of text, compared with 18 for trade, 14 for food and 6 for energy. It is not only considered central in itself, with the world financial system being "in acute danger" and the need "to restore confidence in the banking system," it is also considered essential in tackling the other priority areas of trade, food and energy, which require financial support, often in considerable amount.

Within the field of finance, the IMF was clearly uppermost in the mind of the Commission. To begin with, a "major" new creation of international liquidity by the allocation of SDRs (Special Drawing Rights) is suggested, with the needs of the developing countries in deficit taken into account. Although no figure is specified, the Report says that an allocation of SDR 10-12 billion each year for the next three years is required merely

to restore the international liquidity ratio to the level of 1972 (when the first period of SDR allocations ended). Although there is much support for the suggestion that the present conditions justify a major issue of SDRs, the fear of inflation is still strong to prevent any immediate action now. No doubt, the matter will come up at the Annual Meeting of the Fund this year, at least in the corridors, if not from the rostrum.

The second Brandt Report wants "at least" a doubling of IMF quotas. Here the report was pushing at an open door—there was already a consensus for an increase and action has been taken, although not to the extent suggested in the Report. But at the time of writing, the approval of the US Congress is still in doubt; failure to secure this approval could still bring the world pack of cards down (although the precedent of the IDA replenishment suggests that this is not inevitable). The resources of the IMF are also to be strengthened in other ways : by borrowing from central banks, capital markets, bridging arrangements with the Bank for International Settlement and central banks, relaxation of conditionality, more use of the compensatory Financing Facility, etc.

For the World Bank also, more resources are proposed, particularly for the IDA VII replenishment—the "real increase" proposed does not, however, look likely at this point. More programme lending—30 per cent of total lending, instead of the present 10 per cent limit—would also make for easier and more rapid disbursement, but it will certainly take a number of years for such a level to be achieved, if at all. Where the recommendations of the second Report are more likely to be accepted is in greater aid to the poorest countries—here the Report could simply endorse the agreement already reached at the Paris UN Conference on Least Developed Countries. There are also other important suggestions relating to aid, debt negotiations, private capital and financial South-South cooperation, but these cannot be discussed in the framework of this brief-article.

Trade

The main priorities for the second Brandt Report are rollback of protectionist pressures, commodity stabilization and

tariff reform. As for the first, the two main lines of proposals are addressed to the industrial countries asking them to live up to undertakings given at the GATT Ministerial Meeting to resist protectionist pressures, and to carry out in good faith the negotiations for an imporved safeguard code and bring them to successful conclusion.

As for commodity stabilization, three broad proposals are pursued : the ratification of the Common Fund ; new International Commodity Agreements (ICAs) ; and increased and speedier compensation for losses of exports earnings by developing countries. Not much progress has been made along either of these fronts since the second Report. As already mentioned, UNCTAD VI was a clear failure. The ratification of the Common Fund looks years away. One of the instruments of compensatory action, the EEC STABEX fund, has virtually collapsed and the future under the next Lome-III agreement still looks far from promising. Paradoxically, the main progress—for the moment at least—has been in the area of stabilization of oil prices—and that is, of course, outside the Common Fund/ICA context. The best hope for better commodity prices lies in market forces and the hoped-for recovery in the industrial countries, leading to increased demand and restocking, rather than any kind of constructive international action.

In the area of traiff reform, specifically, the second Report presses for the elimination in developed countries of all barriers (not only tariffs, but also domestic taxes and restrictive quotas as in the case of sugar) for tropical products, and the elimination of tariff escalation and non-tariff barrier for processed commodities. In manufactures, the report emphasizes the harmful effect of artificial shifts in competitiveness as a result of predictable exchange rate fluctuations and the undervaluation and overvalution of currencies, which has been such a serious problem in recent years.

The Report also places consideracle emphasis on the need to change the Common Agricultural Policy of the EEC ; for following the example set by ASEAN to develop trade on a regional basis ; and for overcoming the harmful conflicts in the functions and co-operation between GATT, UNCTAD and the IMF by another attempt to re-create the International

Trade Organization (ITO)—that third pillar of the Bretton Woods system which unfortunately never materialized, due to the failure of the US Congress to approve the Chapter agreed in Havana in 1947.

Food

The three years between the first Brandt Report (1980) and the second Report (1983) have witnessed growing food deficits and rising expenditures on food imports on the developing countries, particularly in Sub-Saharan Africa. It is somewhat surprising that the new Report does not focus more on food than on finance. There are perhaps three reasons for this : the new Report has fewer new suggestions to add to what was already proposed in the first Report ; there is already a good deal of international consensus, at least at the rhetorical level, certainly more than in the area of finance ; and any improvement in finance would help to finance agricultural production and food imports. But then, the opposite is also true : any improvement in food production and food security would free foreign exchange resources for debt service, or other development needs.

In the last three years, the idea of national food strategies in developing countries has gained ground. For example, the EEC, in an attempt to improve its aid and especially food aid process, has helped to develop such strategies in the four African pilot countries : Kenya, Zambia, Rwanda and Mali. The second Report is in full support of more such promising approaches. The proposal for increased support for agricultural research in Africa and the creation of an indigenous research capacity is also essentially non-controversial and should appeal to the EEC as a special task for Lome-III. Better financing facilities for food imports are also not highly controversial. The Report can note with satisfaction that the IMF Compenstatory Finance Facility has in fact been extended to cover cereal import requirements. This helps, but the second Report only goes part of the way towards meeting the problem. There has been less progress and more resistance to the internationalization of grain reserves and their shifts to the developing countries which the second Report persists in advocating.

On food aid, the new Report shows great sensitivity to recent criticism both on possible disincentive effects on local producers and on mishandling and wrong targetting of food aid. But the Report rightly maintains that this calls for improvement in food aid mechanism and better monitoring, rather than reduction. In fact, the Report calls for "a much higher target" for cereal food aid than the present one of 10 million tons per annum without mentioning a specific figure ; the Report suggests providing an extra 1.5 million tons per annum for the International Emergency Food Reserve, quadrupling the present target figure of 500,000 tons. The Report naturally welcomes the increased guaranteed quantities of food aid on a multi-annual basis under the most recent Food Aid Convention which may be seen as a first step towadrs an increase in food aid beyond the present level.

Energy

The support of the Brandt Commission for a new energy agency to help the developing countries move towards energy self-reliance was well-known and is repeated in the second Report. The Report declares itself "baffled" by the US opposition to this proposal and wishes the other industrial countries to go ahead without the United States. However, both on political and financial grounds, this is not likely to happen.

The earlier Report had been criticized for its failure to criticize the OPEC for the suddenness and arbitrariness of its price increases, as well as for its unwillingness to use its surpluses for the benefit of developing countries (beyond the circle of Islamic associates) and, above all, without offering any preferential treatment to oil-importing developing countries. Since then, of course, the power of the OPEC has been reduced and oil prices somewhat moderated, at least for the moment. So, the Commission repeats the proposal for a "deal" under which the oil producers would get guarantees for the maintenance of the real value of their surplus and guaranteed sales in exchange for guarantees of future supplies and prices, with special regard for the poorest countries. But such a deal is no nearer fulfilment now than it was in the heyday of the OPEC in 1980, at the time of the first Report. The new Report notes—

without commenting on the OPEC position—that "the OPEC countries have made it clear that they will not be prepared to strike a deal confined to energy, but would want to relate it to wider North-South issues, possibly also to Middle East political statement." The last clause would seem effectively to prevent any "deal" and doom the proposed "dialogue" to failure. One would wish that the new Report would speak more directly and forcefully to the OPEC, and give the Commission's own view as to how such a "deal" could be reached and what it should include or exclude. As it is, Commission's recommended "dialogue" is clearly half-hearted and put forward without conviction.

PART E

GOVERNMENT SURVEILLANCE VERSUS MARKET FORCES IN THE THIRD WORLD

16

'Things Fall Apart' : The World Economy in the 1980s

REGINALD HERBOLD GREEN

Things fall apart ; the centre cannot hold
Mere anarchy is loosed upon the world.
—WB Yeats, 'The Second Coming'

Now, against a backdrop of global economic recession, the outlook for all less-developed nations—but especially for the Sub-Saharan region—is grim.
—*Accelerated Development in Sub-Saharan Africa* (World Bank, 1981, pp. 3-4).

1981 marked the first time in four decades that the countries of the Latin American and Caribbean region experienced a significant decline in their gross domestic product per capita.
—*The World Bank Annual Report 1982* (p. 88).

The developing world is facing its greatest economic crisis since the Great Depression. As in that earlier period, the crisis is the product of the malfunctioning of the economies of developed market countries and has been intensified by the growing disarray of the trade and financing system. . . at a time

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when considerable adjustment of the economics of developing countries has already occurred.

—*Trade and Development Report 1982* (UNCTAD, vol. 1, pp. 1-2).

The increasing social and political strains associated with high unemployment are creating pressures for a relaxation of the restrictive, anti-inflationary policies. . . a very worrisome development. . .

—*Annual Report 1982* (International Monetary Fund, p. 1).

Shape without form, shade without colour
Paralysed force, gesture without motion. . .
What are the roots that clutch, what branches grow
Out of this stony rubbish ?

—TS Eliot, 'The Hollow Men'/'Gerontion'

1982 and After : The World Economy in Retreat

1982 has been a dismal year for the world economy as a whole and for a majority of its national economies. Growth has been minimal ; inflation (while lower) has remained high in many cases ; world trade has been stagnant and threatened by growing protectionism ; unused capacity and high interest rates combine with low profits to deter investment ; firms and countries find access to credit harder to come by and near (or pass) the verge of collapse ; unemployment is rising and social services are being eroded ; government deficits remain unmanageable despite draconic cuts ; income distribution is worsening nationally and (as commodity terms of trade continue to collapse) globally. In those respects, 1982 is a near return of 1980 and 1981 with a few gains, a few losses on particular issues and for particular economies, but with no overall upturn. This adds to the cumulative strains imposed by the continuation of the crisis for an extended period. There is indeed 'naught for your comfort' in a careful reading of 1982 World Bank, IMF and UNCTAD reports.[1]

True, while each paints a dismal picture, cites basic weaknesses, and warns of dangers, each does suggest that—with varying degrees of change in policy or 'political will'—major crises (*i.e.*, a return of the international monetary and trade

collapse of the 1930s) can be avoided and an upturn can be envisaged in 1983 or a little latter. The disruption and analysis of weaknesses are convincing—the grace notes about recovery sound suspiciously like a small child whistling as it enters a dark graveyard.[2]

What is even more dispiriting is the collapse of any reasoned commitment to goals in respect of employment, capacity utilisation, national and international economic reform, basic income and service provision, or international co-operation in development, which, as recently as 1979, were the reasonably common currency of national and international political, bureaucratic, intellectual, and even business, discourse. It is not just the quest for a new International Economic Order that seems a dim phantasm of another era—GATT is rapidly being eroded by the 'New Protectionism' in product after product (*e.g.*, steel) by and against country after country (*e.g.*, USA and EEC on both sides). It is not merely any commitment to basic human needs globally that is shrugged aside as dangerous romanticism, but the maintenance either of relatively full employment (say 3 per cent unemployed, the 'trigger line' in the 1960s), or of substantial income support to the unemployed in major industrial economies. Not merely are the advocates of equity and assistance to the poor on the defensive, so are those who argue that the way to overcome a crisis of inadequate production, under-utilisation of capacity and unemployment is by devising ways and means to re-employ and re-utilise in order to close the gaps in household, government and national budgets. The reports do not, by and large, say this ; they largely assume it as a given fact which no longer needs to be argued.[3]

Even UNCTAD[4] and the World Bank[5] now seem to seek, at most, to shore up fragments of their visions and goals against a tide they see as running against and eroding them, and which—as, indeed, is true if it is a tide—is largely beyond human control and can, at most, be dyked and channelled to do less harm until, at some unforseeable time, it turns again. This perception of economic events as malign and largely beyond human control is in striking contrast to the varied world economic visions of the 1945-79 era. It resembles much

more the *Weltanschauung* of the 1920s on the periphery, and of the 1930s in the centres, of the world economy.

Four tendencies of economic analysts are evident in varying degrees: to project the future from the very recent (one to three years) past; to adjust such projections if they appear too far from 'normal'; to organise models for the future on the basis of overt or subliminal models of what happened over the past (or the past but one) decade; when recent 1970s-based models seem unrealistic, to grope for approximate precedents. The combination of three years of near-stagnation in capitalist and socialist industrial economies and of decline for a majority of developing economies with a slowly growing awareness that the 1960s (and even 1976-8) cannot be 'restored', renders the sum total of these tendencies much more confused, confusing, and potentially counterproductive, than usual.

The IMF[6]—as usual—has the clearest line. Inflation is the main enemy, and inadequate investment the second (presumably because it would contribute to inflationary bottlenecks on the next upturn). Past rises in real wages (albeit not of the share of personal consumption in GDP as the UNCTAD report shows[7]), increased government deficits (seen apparently as primarily a cause not a consequence of recession), and inflationary expectations, are the causes with weaknesses in financial institutions and protectionism threatening to aggravate the crisis. The cure is to continue to cut private and public consumption, to get prices right, to export more and to hang on until this pays off in low inflation and trade liberalisation, which will allow renewed growth beginning at the centre and eventually reaching the periphery (whose plight the Fund does not deny).

The Bank[8] is more concerned with the costs to development, to investment, to people—particularly in the South – and more aware of how disastrous the international economic context has become for all South economies except—perhaps—the stronger manufactured goods and petroleum exporters. Its projections offer scant hopes for recovery.[9] Its policy prescriptions for the industrial world are the Fund's—for the South it hovers uneasily between the Fund's short-term cutting edge and its own commitments to the long haul and the poor. Its efforts to launch a medium-term, convincing privatisation-*cum*-equity,

primary export-led *cum* developmental strategy—*e.g.*, *Accelerated Development In Sub-Saharan Africa*—have not been very convincing (even to itself one may suspect).[10] Its combination of a reaffirmed commitment to poverty eradication with trade liberalisation, privatisation, and reduced government deficits as a way to increase efficiency and equity in the *1982 Annual Report*,[11] however, seems even odder since no real effort is made to reconcile these apparently inconsistent elements.

UNCTAD appears to have gone out of the policy business.[12] Certainly, it presents the clearest summary of the present crisis and the most convincing analysis of its transmission from the central to the peripheral economies.[13] But the two-thirds of its report concerning structural change, trade in services, oil-exporting country investments and disarmament are tentative, less than analytically clear (as to what the authors think they imply), almost totally devoid of coherent policy or strategy proposals, and quite innocent of any tactics for organising a coalition for change beyond a wistful evocation of the memory of *Programme for Survival*[14] (without citing it).[15] Further, the otherwise rather cogent presentation of the milestones and road from 1979 on are marred by an airy projection of sharply improved developing economy growth in 1982 and 1983 (a luxury neither the Fund nor Bank allows itself). Clearly, accepting that NIEO and the Common Fund-centred IPC are dead (and fearing that the same is true of the Brandt Report), UNCTAD appears to have no fallback position or new approaches to offer.

In all the three reports—but especially UNCTAD's—there are evocations of the 1930s. The Fund and Bank tend to decree such comparisons, but their warnings about the 'dangers' (not openly accepted as actual, well-advanced processes) of competitive protectionism and weakening of the banking system can hardly be interpreted in any other way. So too, in a sense, is the pervasive contrasting of the 1970s to the 1960s and of 1979-81 to 1973-5, although the apparent reality of a continuing post-1969 secular or long cycle decline in growth is not faced squarely, let alone analysed.[16]

1980-1982 'Here We Go Round the Mulberry Bush . . .'

The 1982 reports are frightening reading taken by themselves. What is even more dispiriting is to turn back to their 1980 and 1981 predecessors. Their overall reviews and projections—especially of when revival could be foreseen—read almost like those in the 1982 variants, except that their troughs were then 1980 and 1981 and the beginning of recovery was dated to 1981 and 1982, not 1983 or later.

The changes are in degree of pessimism. In 1980, the full difference of 1979-80 experience from that of 1973-4—particularly in the response of industrial economies—was neither known (given data lag) nor understood. This is particularly ironic in the case of the IMF which was advising ruthless, single-minded demand cutting as a cure to imbalance, which is at least part of the problem. By 1982, the difference is clear and there is less willingness to predict the exact timing—and, more particularly, strength—of recovery.

Beyond that, the main elements have remained constant—apart from the special case of the *World Development Reports* which highlight a different topic each year (*e.g.*, urban development in 1981, agriculture in 1982, management in 1983). Declines in growth and rises in unemployment, rapid variations in exchange rates (bearing no very clear relation to underlying economic strength), persistent government deficits and inflation, rising interest rates, and flagging investment characterise the industrial capitalist (and, to a somewhat under-emphasised extent socialist as well[17]) economies. Falling growth—temporarily held above that of industrial economies by increased (but increasingly unsustainable) external imbalance and borrowing—worsening terms of trade, increasing inflation and government deficits, special problems in agriculture and in 'low income' economies, generally characterise the developing (more accurately in most cases, stagnating, and in many, disintegrating) economies.

Globally rising external imbalances and unemployment are seen as fuelling the growth of protectionist pressure (whose results in placing up to 50 per cent of world trade under *de facto* quantitative restrictions is openly admitted hy none of these reports, and only hinted at even in GATT's more alarming—

and alarmist—effusions), and as creating the danger of a banking crisis or loss of confidence resulting in decreased lending to many poor countries (again with the degree of loss of access to commercial credit, which has happened underemphasised, and little warning of the type of shock exemplified by Poland in 1981 and Mexico in 1982).

Only the World Development Reports continue to make even semi-innovative proposals ; the IMF seems to council 'steady as you go' (down) ; UNCTAD and the Bank's Annual Reports make a case for increased real resource transfers which one suspects they no longer except to happen. The hopes of renewed development, or even preserving what—as the Bank repeatedly stresses[18]—was achieved in the 1960s, and 1970s, seem to be dying 'not with a bang but with a whimper.'

Forward into the 1930s?

A literal return of the 1930s is most unlikely—history rarely repeats itself in that simple way. However, 1969-82 is already a long enough period of secular fluctuations around a declining growth trend to mark definitively the end of the 1945-68 era of sustained (even if uneven by year and among economies) global economic expansion. Until recently, it could be argued that 1974-5 was an aberration with 1976-8, a return to normal, and —less plausibly—that 1976-80 was a return of 1974-75. Today that is universally seen to be nonsense.

What is less agreed—indeed, not even seriously canvassed in these reports—is the overall nature and causation of the new trend—and, therefore, when and in response to what causes it might again be reversed (or reverse itself if one takes a pessimistic view of the theoretical or actual limits of economic management at national and global levels). The lack of agreement—if not of tackling the issue—is not unique to international institutional reports. Disquisitions on Kondratieff cycles, de-skilling, secular structural job destruction, income redistribution against profits and investment, loss of 'work ethic' (or 'efficiency' or some other non-economic or non-quantifiable 'key' element), secularly declining efficiency of macro-management (with its final collapse triggered, but not caused, by 1970s shocks) do not yet take us very far toward a working model of

the 1970s, let alone are able to bear the weight of projections for the 1980s.

In one sense, the heart of the analytical problem is in the North (including the socialist North-East). The South has been continuing with the older models of development—with a bit more emphasis on distribution here, a bit of cutting corners to reduce the increase in imbalance there, and more than a bit of return to economic liberalism and political repression, here and there. That they have, in a majority of cases, worked less well in the 1970s (and especially over 1979-82) than in the 1960s, is amply explained by the international economic context as dominated by the North.[19] However, that way of looking at the problems of the Third World is unrealistic—the 1960s model can no longer be sustained in the South because it has been abandoned and/or collapsed in the North. External the causes of most Southern economies' crisis may be, but unless either the industrial economies recover rapidly, or increase real concessional transfers to the South massively, then Southern economies will have to identify, analyse and implement different economic strategies, programmes, tactics and policies themselves—and quickly. To argue that this is 'not fair' is doubtless true, but hardly relevant. The world economic order has never been characterised by a central commitment to equity, and in stagnation or recession 'what we have we hold' and 'each for himself and the devil take the hindmost' are rather more compelling slogans—in revealed preference evolution of actions—to most Northern states' sub-classes and interest groups, than 'partners in development' or 'basic needs'.

That said, certain parallels to the 1930s (and the 1920s in much of the South) need to be noted ; not to make a reductionist case for a return, but because they are likely to make the 1979-82 global recession/decline continue over the medium-term and, quite possibly, to become substantially more severe.

Commercial bank lending to companies and to countries is overextended. The levels of debt service (even if the unprecedentedly high real interest rates of 1980-82 do decline significantly, as seems moderately likely) are already crippling to many enterprises and national economies. Yet, the net inflow of funds is falling, and, without a reversal of that trend (most unlikely given present banker 'animal spirits'), there will be

more bankruptcies, 'life boats', defaults, reschedulings, and declines in growth. These results of lower net lending will, in turn, further erode the real and apparent security of the present loans. In that context, the danger of a change bankruptcy (especially of a significant bank), or default (especially by one of the score of borrowers with over $ 5 billion outstanding), could trigger a chain reaction even central banks, the BIS and the IMF could at best only partially control.

That is an alarming reading but not an alarmist one. The Group of 30 (a bankers' think tank headed by Johannes Witteveen, and including Christopher McMahan, Anthony Soloman, Henry Wallich, and Alexandre Lamfalussy) has recently painted at least as stark a picture, if with an understandable fuzzing-over of consequences of a random or partial breakdown.[20] And as eminently orthodox a source as the *Financial Times* (London) points out that stabilisation will neither protect the banks nor the developing economies. The latter 'need further inflows of capital if they are to avoid impoverishing themselves and further depressing world trade through imposed austerity.[21] That implies the need for a solution beyond rescheduling—indeed beyond any action open to commerical banks—'reconstruction of long term debt, after some necessary write-offs . . . just as over-borrowed companies require refinancing. This question has not yet appeared in the international agenda.'[22]

World trade growth has ground to a halt in 1981 and seems likely to have remained there in 1982.[23] Even its most dynamic element—manufactures—grew only 2.2 per cent in 1981 *versus* 5 per cent a year even over 1978-80. In part, this is a natural result of recession and payments imbalances, but that line of causation is increasingly reinforced (and made more enduring) by protectionism. Long standing in textiles, it has steadily broadened to new products (*e.g.*, steel, automobiles, ships) and new countries (virtually all economies—except Japan—are using a variety of devices of increasing complexity and opacity to halt or reverse increases in imports of 'sensitive' products). Cartelisation and subsidisation as tools of output protection and trade limitation (with resultant 'unfair competition' barriers raised in response) are another 'growth sector'. It is still too early to say that GATT is dying, but, unless its 1982-83 talks secure at

least a standstill in rising protectionism, epitaphs may be appropriate by or before 1985.

Capacity destruction is proceeding rapidly—on a scale unprecedented since 1945. In the industrial capitalist economies this 'rationalisation is partly despite and partly integral to attempts to salvage a growing number of desperately imperilled enterprises, from Chrysler to British Steel and International Harvester to Dome Petroleum, among the best-known. In 'low income' economies—especially, but not only, in sub-Saharan Africa—the same process is being 'achieved' by inability to maintain or rehabilitate or replace existing capital stock in transport, manufacturing, power, agriculture and public services. The more capacity is closed, and the more 'deferred maintenance' adds up to scrapping, the longer after turn-around begins it will take to restore real employment and per capita income levels, especially in the hardest hit 'low income' countries.

Welfare cuts are also becoming pervasive. In the industrial capitalist economies they take the form of reducing the real value of transfer payments as unemployment rises, and of cutting health and education relative to requirements for maintaining a constant level of availability per capita. In socialist industrial economies, they centre on price 'rationalisations' whose effect is to cut real wages. In the South the process is rather different—welfare, in terms recognisable in the North, and universal access to even basic services have never existed. Higher unemployment lower real wages, less protection for the poorest as need increases (*e.g.*, in Sri Lanka's deliberate draconic cutback of basic food entitlement provision, and Tanzania's forced abandonment of attempts to protect real minimum wages and grower prices), and erosion of quality and/or coverage of already far from adequate or universal primary education, pure water supply, and basic health care are the results. Quite apart from their impact on inequality, such cuts have two more effects. They further weaken demand (already a drag on industrial economy recovery), and threaten the employability and productivity of the labour force of the late 1980s and 1990s (especially, but by no means only, in the South).

Programmes for Survival

In respect to the South, the present impasse does not flow from absence of evidence of success nor of how such success could be built upon. *IDA In Retrospect* documents convincingly show that lending to poor countries has had relatively high rates of return, and that programmes oriented to basic needs and poor people can—within a fairly wide range of contexts—have at least some positive distributional impact at no very evident cost to growth.[24] Even the 1982 US Treasury study[25] reaches broadly similar conclusions and—perhaps surprisingly—finds that multilateral agency lending had assisted and stimulated the private sector long before the Bank's 1981-2 calls for 'privatisation'. Similarly, the 1981 IFAD *Annual Report*[26] demonstrates not only a substantial volume of lending but progress toward a more integrated (including social infrastructure, storage, marketing) and more targeted (to deal with problems and to provide resources of special relevance to smaller peasants and landless) approach to rural development.

The 1982 *World Development Report*[27] stresses with logic and evidence that basic needs provision and absolute poverty eradication are productive as well as equitable, and that over the 1960s and 1970s not insignificant progress was made in a growing number of countries. Rather ironically, it cites Tanzania, Sri Lanka and China as positive examples, and contrasts them to poorer basic needs/absolute poverty eradication results in Mexico, Peru and Brazil. What it has learned by experience here is unclear, as its recent policy advice to Sri Lanka (as embodied in 1978-82 strategy), Tanzania and—perhaps a little less clearly and certainly less influentially—China would appear to call for reversing precisely those aspects of political economic strategy leading to the results it commends.

If these fragments of approaches and results are to continue, the case for implementation of *A Programme for Survival* (the Brandt Commission Report) would appear overwhelming.[28] The same could be argued on grounds of achieving renewed growth in the industrial economies and easing their structural transitions—as UNCTAD does argue at some length.[29]

However, whether the Commission's programme survives

even as a focus for discussion and negotiation is open to grave doubt.[30] Whatever its weaknesses—and it has never lacked for both South/Left[31] and North/Right[32] critics—the report was the only inherently practicable, potentially politically-saleable manifesto and outline for using North resources and the need for economic re-expansion to safeguard South development momentum and poverty alleviation, and, by welding these two overlapping interests, to reverse the post-1979 decline.[33] Basically, it was a proposal for Northern and global economic revival with very modest reforms aimed at stability and poverty eradication, whose Southern support was based in halting the slide into cumulative crises.[34] Whatever its defects, either as a piece of new theoretical analysis or as a Third World Manifesto (neither of which it ever claimed to be—nor needed to form the basis for a negotiated action programme), it is hard to argue that 1982-5 prospects in North or South are improved by its apparent (and probably real, despite late 1982 resuscitation efforts) demise.

'Alone in a Leaking Boat . . .'

Developing economy growth in 1981 fell to 1.5 per cent (or 2.2 per cent)[35]—in either case, well below population growth. For the 'low income' countries as a group this was the third consecutive year of per capita GDP decline. For them, the World Bank projects 'more' of the same 1980s unless there is an immediate revival of industrial and world economy growth. Even for India and China, it forsees a failure to sustain recent growth in real per capita GDP barring a favourable change in the international economic context.[36]

For the smaller low income countries and especially for those in sub-Saharan Africa, the closing years of the 1970s have been a period of economic agony unprecedented in their experience as independent States.[37] Following fairly successful—if often deeply painful and costly—overcoming of the 1973-4 oil and food shocks by a majority, the 1979-80 renewal of global stagnation and terms of trade collapse has pushed the vast majority to go beyond the brink of economic disintegration (still slow and fought against in a majority of cases, but gaining momentum). For poor countries, trade performance has been

dismal in terms of export volume, terms of trade, and finance-able import levels. From January 1980—March 1982 the nominal prices of primary commodities—excluding grain, of which these countries are net importers and for which prices rose—fell about 2.5 per cent.[38] From 100 in 1972 (not a particularly good year), their terms of trade fell sharply to 75 in 1975, recovered to 95 in 1977, and collapsed to 65 in 1981.[39] Their real export earnings in 1981 were below 1972 levels.[40]

These devastating external trade 'developments' have, in most cases, largely swamped domestic strategy and policy as contributory factors to economic performance. With such falls in the global purchasing power of exports, providing domestic price incentives to produce them has been well nigh impossible (and would in strict market economic terms have required very marked 'price distortions'). With imports per capita necessarily cut dramatically, with consequential negative effects on production in all sectors (including exports), on shortages and on government revenue, ability to manage efficiently has, inevitably, declined.[41]

The World Bank presents the starkness of these countries' plight very clearly in its capsule summary of Sri Lankan performance and payoff over 1960-80.[42] Constant price GDP per capita rose 67 per cent. Adjusted for terms of trade losses it rose 25 per cent. Constant price investment per capita rose 307 per cent. But constant price consumption per capita fell 10 per cent. Despite an increase in domestic savings from 9.6 per cent to 13.8 per cent of GDP (15.8 per cent in 1970), external financing rose from 4.2 per cent to 22 per cent of GDP—fairly obviously an unsustainable (and globally ungeneraliseable) level. As the Report does not add, in the late 1970s and early 1980s security for the very poor was eroded, malnutrition and infant mortality rose (breaking a trend of three to four decades), inflation soared and real wages fell, the external imbalance position became increasingly precarious, and the dash for neo-liberal capitalist, export-led growth looked increasingly unlikely to be maintainable.

The costs of cuts in such economies is made clear *en passant* throughout the Bank's two 1982 reports: increased inequality,

reduced access to health and education, the halting of the development of human capital, the reversing whatever development dynamic had been achieved with respect either to basic needs or to production growth. But the Bank's structural adjustment programme model seems to be based on prior cuts on the lines of IMF 'stabilisation',[43] and to be so small quantitatively (alone or with the IMF facilities) as to make even medium-term restoration of the cuts impossible.

For the poor economies—and especially for policy makers in them concerned with the welfare of the poor—the immediate future does indeed seem to be 'Alone in a leaking boat, listening to the undeniable tolling of the bell of the last angelus'. For many of their people it means literally that—premature death. For some of their economies it may mean the same—Ghana, Zaire and Uganda may soon have a new wave of parallels in the 'economics of disintegration' category.[44]

'Where there is No Vision. . . .'

To expect the North to act promptly and effectively, either to restore its own growth and employment levels (to, say 4.5 per cent a year for growth and 5 per cent for unemployment), or to take action on the resource transfer front in order to allow continued South development (and reversal of redevelopment in many of the least developed), would be highly imprudent. This is not to decry calls for such action,[45] but to warn that no South (or North) economy should count on any such environmental improvement until and unless it actually happens. ODA to the least developed is not going to double by 1985.[46] ODA, overall, is likely to rise very slowly in real terms for the forseeable future;[47] bank lending to developing countries (already sharply lower in terms of net inflow[48]) is much more likely to fall (and to exclude more countries) than to rise.

There are at least five fairly solid reasons behind this projection. The first is that industrial economy politicians and technocrats are unsure of what has hit them, why it has, and—perhaps most important—how to restore some semblance of economic balance, economic growth and social stability (including significantly reduced levels of unemployment). In part, this

relates to general theoretical and analytical uncertainty, and in part to the simple fact that from 1979 on industrial economy strategies and policies have—at best—been very partial and slow in yielding either economic or political payoff. Given the weakening development momentum in much of the Third World, and its evident linkage with industrial economy stagnation, it is hardly surprising that there is no agreement on what (if anything) to do on the North-South front.

Second, in the United States and United Kingdom, highly reductionist (and to most uncommitted observers, inherently self-contradictory) dogmas have been entrenched as—or, in the absence of—national economic strategies. In the case of the UK, the apparent result is external balance, declining inflation, rapid deindustrialisation, burgeoning unemployment, and a rising ratio of public expenditure to GDP, despite cuts in real services provided because of the induced depression's impact on growth (generally, and of public revenue) and in expenditure demands (bolstered by unemployment and the need to raise subsidies to prevent even more rapid industrial decline). In the United States, external balance and lower inflation may be being achieved, but by draconic use of monetary policy to counter stunning fiscal irresponsibility in massive tax cuts, massive spending shifts from services to defence, and a fatuous vision of a private sector growth/tax rate cut ratio that would surely and speedily raise total tax revenue. Neither approach is conducive to orderly world economic management, minimising costs of adjustment, or avoiding adding a major new inflationary and depression-inducing burden—massively increased debt interest rates—on many South economies. Nor, since both policies seem to suspect that no demand (and certainly no non-military public sector demand, is good demand, is either of these consistent with maintaining—let alone increasing—real concessional finance transfers to the South. Given their record of unsuccess, the calls for 'more time' because 'there is no other way' may seem absurd (including, at times, to the financial press) but President Reagan and Prime Minister Thatcher, while giving way on some secondary issues, show no signs of radically rethinking their strategies.

Third, the new anti-welfarism (whether jubilantly proclaimed as by Count von Lambsdorff in Germany and the Cabinet

'Think Tank' in the UK, or sadly accepted as inevitable as, for example, by the Christian Democrats in the Netherlands, and the Socialists in France) is becoming generalised in the industrial capitalist economies with their own variants advancing in several socialist industrial economies (from Poland to Yugoslavia). The intellectual climate has changed markedly—degrees of privatisation (especially in health and education) and of reduced safety nets for the disadvantaged and unlucky, which would have met with general condemnation five years ago, are now seen as intellectually respectable and politically practical, to the extent of posing the question 'Farewell, welfare states?'[49] The desire to cut spending reduces the chances for an improved economic environment for the South—if domestic welfare is to be cut, aid is likely to follow close behind; if unemployment is to be boosted, protection of jobs by 'easy' methods (*e.g.*, slamming doors in Third World faces) is likely to be seen as a complementary measure; if domestic demand is to be weakened yet further, the chances for improved export terms of trade and volume are virtually nil.

Fourth, the 'self-reliance of the rich' is progressing. Primary commodity import substitution[50] (especially by subsidised agricultural production and dumping of surplus 'mountains')[51] has been proceeding for over a decade. It has now been joined by attempts to achieve similar import substitution in fuel (successful at least until 1982's marked weakness in oil prices), and in manufactures (against the NICs). Each of these may be useful in the long run in reducing North demand on scarce resources in the South and limiting dependent integration. However, none (with partial exceptions in respect to fuel and gain for LDC net importers) does anything to alleviate the shocks, terms of trade deterioration and stagnation, that recession in industrial economies is dealing to most Southern economies.

Fifth, so long as present policies are continued by the USA and UK (and probably so long as a much wider array of industrial economies rate reduced inflation and budget deficits above reduced unemployment and capacity underutilisation), there is little even a large dissenting capitalist industrial economy (*e.g.*, France) can do to adopt and sustain a different strategy nationally, let alone cause a turnaround in the world economy.

The results may seen to be the economics of the madhouse (or, as Vice-President Bush put it before joining President Reagan's team, 'voodoo economics'). They are, however, the present parameters constraining the world economy's evolution.

Middle-Income Developing Economics : 'Onward and Up' ?

At first glance, middle-income developing economies with significant manufactured exports seem to have the least dim prospects of any category of country. The World Bank expects them to continue to outperform industrial (let alone low income) economies, and to maintain a growth rate of 4-5 per cent, well above population increase.[52]

On closer examination, the 'virtuous circle' begins to appear less tightly closed. In 1981, two of the regions dominated by such economies—Latin America and the Caribbean, and South Europe and the Mediterranean—had the lowest growth rates of all.[53] In 1982, Singapore projects a radical fall in growth likely to last at least half a decade, while efforts to restart the Brazilian 'miracle'[54] on the back of manufactured export growth continue to flounder.

Certainly in the 1970s, those countries with substantial manufacturing sectors—except for Hong Kong, Singapore and Puerto Rico, built up over decades behind protective barriers and backed by massive, detailed State intervention[55]—were better able to maintain export and domestic growth and to use price policy (including exchange rates) to secure adjustment.[56]

This is hardly surprising—their economies were, by definition, much more flexible than those of primary commodity exporters with limited industrial capacity, and, until the last four or five years, the price and quantity problems confronting manufactured goods exports were significantly less than for non-oil primary products. Further, in the 1970s, these economies were readily able to secure virtually unlimited commercial bank credits, and a majority had governments whose ability to restrain wages, trade union organisation and public spending on basic services and security for the poor was—to say the least—significant.[57] None of these conditions appears to hold

equally true today or to be likely to be restored soon. The new protectionism, the decline in 'animal spirits' of bankers (or, their more sober projections after past excesses of optimism, if one prefers) and, in many cases, rising social and political pressures of the type the IMF decries in the industrial economies, precisely when opportunities for redistribution out of growth have fallen, all raise doubts about stable industrial export-led (*e.g.*, Singapore) or underpinned (*e.g.*, Brazil) growth.

For the established NICs (*e.g.*, Republic of Korea, Singapore, Hong Kong, Taiwan, Brazil, Yugoslavia and even Portugal and Mexico), the Bank's projections may be broadly correct, if still rather optimistic. They have established firm niches in the international manufactured goods trade pattern and may well be able to hold them. For the would-be serious entrants with a major domestic industrial sector and some export base—*e.g.*, Turkey and (albeit, it is a low income economy) India—the outlook is cloudier. For the near (*e.g.*, Philippines) or would be (*e.g.*, Sri Lanka, Mauritius, Zimbabwe) NICs it is probably as dire as for the primary product exporters. The depths of a global recession, with massive overcapacity at the centre and in intermediate economies, is both logically and historically the hardest time of newcomers to make breakthroughs. Further, UNCTAD's analysis of structural change in manufactured goods demand and trade growth suggests problems, not only for products like textiles and footwear, but also for more recent 'success stories' like steel, ships and petrochemicals.[58]

What Is to be done? the South

Given the present and probably future global economic environment and the lack of any realistic prospects of North-led global recovery South development sustaining support, Southern States must act singly and collectively if they wish to avert a 1980s experience for most of declines in real per capita income. That the problems are largely, or at least substantially, externally caused is not a valid reason for seeking to avoid such action, because no external cure is reasonably foreseeable—quite the contrary.[59]

The South is evidently neither monolithic nor homogeneous.

Countries vary in their economic (and socio-political) strength, in their degree of importance (for whatever reason) to external supporters, in their short-term prospects in the absence of restructuring, in their degrees of freedom to restructure, and-not least—in their domestic political economic orders (or power—benefit—access—participation structures).

The last point deserves special mention. It is simply not true that in inegalitarian, authoritarian regimes the present and future crisis will not severely affect the poor. As in the song about the sinking of the Titanic, they put the poor 'down below where they'd be the first to go'. Furthermore, it appears on balance to be those low income countries which have made substantial gains in basic income and service security for the poor (*e.g.*, Sri Lanka, Tanzania—as cited by the Bank) which face the most intractable impasses and the greatest external pressure to abandon basic needs and protection of the poor, and go bald-headed for privatised growth, 'red in tooth and claw', and efficient at increasing inequality and inequity, if not much else. To say that many developing economies cannot, in the changed world economic environment, continue to live at the standard to which they are accustomed may well be only too true. But as a flippant retort to a serious posing of dilemmas—justified by the implication that only a few *compradores* and repressive national elite members will suffer—it is both deeply untrue and verging on the obscene in its failure to face the human costs of absolute decline in many low (and even some medium) income economies' national purchasing power (constant price GDP adjusted for terms of trade losses).

However, despite the divergences noted, most Southern economies do have three things in common. They are Northern—a distinction far sharper for the middle class economies (*e.g.*, Brazil, Mexico and increasingly New Zealand) in the midst of what is now seen as sustained global declaration of growth and acceleration of unemployment than it was five years ago. This unity of the excluded is reinforced by the North's lack either of steps to assist all low and middle income economies (which would allow greater freedom for intra-South conflict), or of selective, planned splitting measured backed by substantial resource allocations (which would exacerbate them).[60] Second, almost all need to revise their economic

strategies (including the collective one loosely called NIEO and/or 'North-South dialogue') to accord to what is necessary and possible in the global economic context of the 1980s. Third, most have at least some remaining (albeit, shrinking and desperately slim) power to take some action to reallocate, consolidate, reorganise.

A number of guidelines for reviewing present and possible strategies and strategic reformulations include : consolidation and preservation of threatened existing capacity and capital stock ; restructuring toward greater national economic integration and higher exports ; greater attention to distribution and to basic services ; more practical and practised building of South-South economic links ; and, a reformulation of international economic reform negotiating priorities, including a greater emphasis on immediate proposals which would both be crisis-reducing and potentially negotiable in the short run.

In many low income countries, the first priority must be to raise capacity utilisation and to maintain and rehabilitate existing, but rapidly deteriorating, capital stock. This applies both to national allocations of resources and to utilisation of external finance. Since 1979 it has become true for an increasing number of economies—including some of the most severely affected middle-income ones—that adding to capital stock and capacity is, in practice, an alternative to increasing output from, and ensuring maintenance of, existing capacity. Crisis surmounting requires that falling capacity utilisation and preservation—together with gap filling new investment—receive priority until some foundation of stability can be attained to relaunch a forward dynamic. While this priority is—at least verbally—beginning to win wider acceptance, few South governments and fewer North aid agencies subscribe to it fully in practice.

Restructuring in the context of global economic stagnation and worsening terms of trade requires national economic integration, *i.e.*, reduction of dependence on imports to maintain basic production of goods and services. Two critical sectors are energy and food—both significant net imports for a majority of South economies and both normally, in part at least, technically and economically viable candidates for import substitution, in the strict sense of absolutely reducing present

foreign exchange bills.[61] At the same time—despite the only too evident obstacles—there is a compelling need to raise earned import capacity. National economic integration—at least, until well advanced—requires increases in absolute imports ; national control over strategy requires reduction of dependence on ODA and commercial lenders. To delink from export growth and substitute begging and borrowing is the opposite of self-reliance. Priority to earned import capacity enhancement need not imply export-led growth ; the basic sources of growth and of surplus in a national economic integration strategy will normally be domestic ; exports validate them by transforming output and surplus into goods not (or, not yet) produceable domestically. Nor has trade liberalisation much evident logic as a way to decrease import dependence or increase exports in a weak economy during a period of generalised global unemployment.[62]

In general, quite the reverse—*vide* Mexico's tripling of imports to GDP ratios during five years of liberalisation, and its (partial but critical) contribution to the present crisis, even in an economy with a relatively strong industrial sector and—even in 1982—a sounder than average export base because of petroleum development.[63]

In order to consolidate and lay a foundation for renwed progress based on national economic integration and a higher ratio of earned import capacity to import requirements, many South economies—especially low-income ones—must make cuts in present resource utilisation, both to free scarce resources for reallocation and to reduce quite unsustainable levels of external imbalance. This is a bitter fact to accept ; as UNCTAD has pointed out,[64] major restructuring at high cost has already been undertaken, especially during the 1973-5 crisis. Even for the low income countries—whose adjustments were somewhat more cushioned by aid—the cost has ranged from substantial to major.[65] And, over 1960-78, the developing economies as a group (albeit, not most of the low income subgroup) had clawed investment up from 18 per cent to 27 per cent of GDP, held the increase in public consumption to 2 per cent (10 per cent to 13 per cent) of GDP, and cut personal consumption from 71 per cent to 60 per cent of GDP.[66]

The real cost of further cuts in resource use will, in many

cases, be high, and where they can be made without triggering cumulative collapse is not clear. For example, over 1979-82, Tanzania has cut real wages over 25 per cent, real salaries over 40 per cent, real (per household) peasant incomes about 10 per cent, real per capita real government spending on services other than on debt, public corporation reconstruction, and defence, at least 20 per cent, and defence 30 per cent. Real exports were raised over 10 per cent in 1981. Yet the recurrent budget deficit is still over a third of recurrent revenue, capacity utilisation in manufacturing has fallen to 30 per cent, GDP growth has gone from over 5 per cent to less than nothing, exports (plagued by violent terms of trade deterioration) still cover barely half of actual imports (under 40 per cent of the minimum necessary for plausible operation of existing capacity), inflation is rising past 33 per cent a year, and deferred maintenance is rapidly eroding capital stock. To create room to consolidate and space for a subsequent revival requires both cuts in resource use and additional external finance.[67]

For most small low income countries there is no choice not to cut. The options are nationally planned cuts, externally imposed cuts and the random cuts of unmanaged economic disintegration.

Redistribution toward the poor and toward basic services is not a 'natural' reaction in an economic crisis, but it has three strong cases for it : such reallocation of investment, earning power and public finance is likely to bolster agricultural output and demand for domestic production generally ; significant gains on access to basic services are often financeable even when rapidly rising real wages (or grower prices for crops) are not ; failing to shelter workers and peasants from the worst effects of the crisis is likely to erode social and political cohesion beyond the breaking point in a number of countries. What the form of such ruptures will be varies. The febrile persistence in indecisiveness of Ghana (1965-81); the bloody settling of accounts of Liberia (1981); the externally-oriented enclave financing an elite and its security forces, with the majority of the people and the territory sinking into oblivion, of Zaire; the deadlock between a strong illegal economic sub-system and a weak state of Uganda (1980-82), are examples

of the range of possibilities likely to prove more common than the more spin-chilling variants on the Iranian revolution (which was precipitated by gross inequity even in a context of economic progress), or the Khmer Rouge attempt at coercive, intellectually-modelled restructuring after a bumper populist revolt. Redistribution will be hard to achieve—all sub-classes including elites have had losses in many South economies—not achieving it will often be still more costly.

The well known diseconomies of small size and limited range of resources still make the case for more practical South-South co-ordination, based on perceived common interests, increases in production, and reducing vulnerability to a hostile international economic environment. Rhetorically, a priority is acknowledged but—to varying degrees—that has been true for twenty years, and over scores of integration/co-ordination attempts with rather limited results.[68] Many existing regional bodies have, in fact, been weakened by the present crisis.[69] At the same time, the increasing recognition of the implausibility of a *laissez-faire* market as the main instrument to coordinate economies marked by diverse, but usually extensive, patterns of State economic intervention nationally; of the logical primacy of increasing production with enhanced trade a validating consequence; of avoiding either dominance by one member or by external investors, has focused attention on the need for different co-operation structures and instruments. A few exist but some—*e.g.*, The Andean Pact—are demonstrably weakened by the crisis and in some danger of reverting to the neo-classical free trade area model while others—*e.g.*, the Southern African Development Co-ordination Conference[70]—while showing signs of non-conventional progress in practical co-ordination are, despite their goal of economic liberation, still dangerously dependent on external resources.

The NIEO programme of negotiation/confrontation was formalised in 1974 as a means to restructure the Old International Economic Order of the 1960s. In retrospect, it was obsolete at birth, an unfortunate fact which has become increasingly evident with the consolidation of the New International Economic Disorder (NIED). Many of the basic themes on the NIEO agenda remain valid, but it is arguable that they are not the changes needed today in order to achieve consolidation and

time to reorganise for South economies, and fairly clear that no real progress toward negotiating them will be achieved until either the NIED recedes, or the Northern economies totally reverse their views as to the potential importance of sustained South development to their own economic revitalisation.[71] The case exists, therefore, for Southern States—individually and collectively—to build up a short-term priority negotiating list centred on practical, limited proposals (varying from country to country and by groups of countries) which might offer significant respite from current buffeting, and be fairly promptly attainable. The 1983 Belgrade UNCTAD and ACP/EEC negotiations toward 'Lome III' are early opportunities to try out such an approach.

What is to be Done : Multinational Fora

There are a number of issues that Southern States might usefully pursue in international fora, because they meet the test of present usefulness in crisis management and some realistic chance of speedy agreement. This is not a case for removing more basic structural reforms from the agenda, but for recognising that even attaining serious negotiations on them is a medium not a short-term target, and that serious rethinking of formulations and modalities relevant to the economic conjuncture of the 1980s (not the 1960s) is needed.

Three issues are, to a large extent, cross-forum: trade access, loan restructuring, and concessional finance modalities. Each touches on concerns important to Northern economies: protectionist trade destruction, default leading to banking crises, and demonstrable results from aid programmes. Therefore, a mutual interest in negotiating now and some South bargaining power on these issues exist.

It is now clear that the new protectionism cannot be confined to developing country 'recipients' and can be lethal to world trade recovery. Greater Southern participation in GATT and other trade fora would help to bolster the 'free traders''[72] and, in return, limit selective discrimination against LDC exports (including tariff discrimination against processed and semi-manufactured forms of raw materials). This offers more

potential than hammering away at GSP (generalised selective preference) concessions.

On loan restructuring there is no clear cut forum—the Paris Club is a case by case applier of guidelines, not their formulator. What is needed is a formulation providing for conversion of short-term borrowing to medium-term loans and—especially for poor and middle income countries – rescheduling with lower interest rates and some write-offs where attempts simply to roll forward the debt will prevent the sought return to economic viability (including becoming a good customer who can pay on time). Because the danger of default is real, and its consequences potentially dangerous, Northern States and central banks might agree to provide some funding (to take part of the costs involved off commercial banks), and to provide a framework in which commercial banks could agree to such an approach.

Concessional finance modalities—unlike level—may be substantially renegotiable. The key targets are quick disbursing (*e.g.*, notably unlike the European Development Fund which during 'Lome III' will be disbursing, largely Lome II, partially Lome I, and, only secondarily, 'Lome III' allocated project finance!) and availability for use in order to sustain capacity utilisation (*e.g.*, in manufacturing, agriculture, health *via* raw material, fertiliser, pharmaceutical imports) and maintenance (*e.g.*, road transport *via* vehicle spares, artisan training, garage equipment, road graders, bitumen for resealing). There is willingness in the North to consider such shifts (if also opposition); concerted negotiating priority could bring results.

In the Fund, the Bank, and UNCTAD there are several issues on which systematic pressure and dialogue might yield results. These do not now include major restructuring of voting rights, turning the Fund into a development aid body or a world central bank, large SDR issues, or the Common Fund.

The Fund can be challenged on its own ground by pointing out that it is not able to provide effective short-to medium-term financial support to stabilisation/restoration of external balance. Most of its post-1979 Southern facilities have failed to be fully drawn because of programme breakdown; its current conditions so deter borrowers that they come too late; fund are inadequate if fuller use is made by countries with payments imbalances,

present drawing—repayment periods—ceilings (especially for the Compensatory Facility) are too low and too short to allow adequate finance and time for stabilisation; even industrial economy programme records suggest that Fund facility use, as presently handled, is usually a very short term palliative and does little to provide time for a longer term cure. There is wide agreement—not limited to Southerners or radicals—on these points.[73] Pursuing them in the IMF (and with its key industrial economy members) could lead to larger credits, conditionality allowing more margin for error and less restrictive to medium term adjustment, and improved Compensatory Facility conditions (perhaps partial indexation and/or repayment period linked to export recovery).

The Bank's first need is to have IDA finances restored to a sound basis. In terms of aid content it is almost as large as the Bank proper; for several really poor economies, it is a vital source of funding. Second, it should be pressed to review what structural adjustment really means and to be more flexible in evaluating different approaches on their merits. If this is done, structural adjustment should become 25 per cent not 10 per cent of lending. The Bank's not inconsiderable powers of review, evaluation, and rethinking should be more explicitly focused on the results of its own advice, and when they suggested the Bank as well as (or instead of) the recipient was in error, this should be stated openly in formulating and advising new approaches.[74]

UNCTAD faces a 'post-Common Fund' problem of creating a body of issues seen to be coherent, suited for action, and important. Some items may include the 'second window' category from the Common Fund : pre-export processing and manufacture (*e.g.*, hides to leather to shoes) ; research and development on new uses (*e.g.*, high grade paper from sisal); international marketing and storage (*e.g.*, in bananas) ; data collection by primary producer institutions (*e.g.*, as begun in the case of cocoa). These, in sum, can significantly raise primary exporter value added and surplus from even present export levels at present user prices. No general Northern opposition to discussing—and to a degree funding—them exists. Specific proposals and programmes could win acceptance. The same is probably true in respect of measures (not limited to transport

and storage) to benefit landlocked developing countries and poor coastal transit States serving them. While the Paris Least Developed Conference was a flop at macro-funding level, it did arouse interest which, if followed up by concrete (and less sweeping) topic and country packages, could make progress.

Finally, if more specific, more limited, more speedily negotiable proposals, are to become a Southern (or sub-set of Southern) country priority for international fora in the short term, the work of the Group of 77, Group of 24, Non-Aligned and smaller South-South fora needs augmentation. Technical capacity (including small professional secretariats and links with Third World-based research institutes,[75] is needed for three reasons : to formulate alternative proposals (and supporting papers explaining and justifying them) to be placed in the bodies' manifestos and programmes of action ; to provide tactical negotiating back up both to the groups and—when requested—to particular countries ;[76] to create a body of applied research on structural, strategic, and tactical issues which are not well understood (in North or South) and in which present (North and South) formulations tend to be simplistic, uncommitted, and hard to turn into operational form.[77] These are not areas to be left to chance, to friendly (or less friendly!) Northerners, or to the UN—self-reliance, self-respect, and self-interest counsel South bodies to get on with them.

Because We Have Gone on Trying

The 1969-82 course of the world economy has been one of fluctuating deceleration and recurrent crises into a generalised stagnation and crisis. The effects on most of the South have been especially severe but the North (including the socialist North-East) is suffering as well. There is no clear understanding of the causes or durability of the present crisis, but early recovery is unlikely and might well prove only a 1976-8 type respite, not a turnaround.

It is relatively easy to sketch scenarios and international programme packages which would allow the South to escape the worst of the crisis. The problem is that they are not

negotiable with the North—with the potential exception of reviving North growth *via* trade/resource transfer support for the South. This would require proposals putting *Programme for Survival* into a more saleable form.[78]

The potential common interest of most North and South economies is crisis limitation/consolidation. Concrete, negotiable packages need to be constructed on that base (as a prelude to longer-term negotiation of more basic changes, not as a substitute for them). Nationally and regionally, the South economies must seek to reduce vulnerability to world economic crises (*e.g.*, national and regional economic integration) ; to limit dependence on Northern goodwill or psychological calculations (*e.g.*, raise earned import capacity—*i.e.*, exports—relative to necessary imports) ; and, to consolidate (*e.g.*, both imports and exports cut to reallocate and to reduce present unsustainable imbalances).

This is not a matter of grand designs and inspirations, but of tactical defence and consolidation measures and of tedious formulation—negotiation—implementation. By itself, it can produce neither new national nor international economic orders nor even any guarantee of warding-off collapse. But it is crucial because without it there will be economic and social collapses (more brutally, infants will die for lack of health care ; malnutrition and impure water will terminate even more human beings' lives prematurely ; riots and revolts will kill, maim, and create conditions in which ordinary people cannot go about their ordinary business without fear).

Many Southern governments and people are facing such daunting problems—and making such limited gains against them—that the most ambitious assertion in many contexts today is 'We who are only undefeated because we have gone on trying'. In that context—whatever else the Brandt Commissioners may have had wrong—one fact must be held to :

> The search for solutions is not an act of benevolence but a condition of mutual survival. We believe it is dramatically urgent today to start taking practical steps.

References

1. *The World Bank Annual Report 1982* (World Bank, Washington DC, 1982) and *World Development Report* (*WDR*) 1982 (Oxford University Press for World Bank, 1982); *Annual Report 1982* (International Monetary Fund, Washington DC, 1982): *Trade and Development Report 1982* (UNCTAD TDR/2-Vols. 1-3, Geneva, 1982).
2. For example the Fund's belief that progress against inflation will soon lead to recovery, the Bank's refusal to make clear its *de facto* abandonment of its 1980s growth projections for developing economies, UNCTAD's projection of 1982-3 recovery for LDC (and especially LLDC) growth rates.
3. This is especially true for the IMF.
4. As in UNCTAD's not very convincing chapter 2 (Vol. 2) on growth prospects, especially Table 3.
5. For example, in still advocating commitment to absolute poverty eradication (*WDR* pp 23ff) while proposing privatisation, reduction of government spending, and concentrating on those farmers whose output would rise most rapidly (and virtually defining them as the better-off ones), in *Accelerated Development in Sub-Saharan Africa: An Agenda for Action* (World Bank, Washington DC, 1981).
6. As brought out with striking clarity in the 'Press Summary' to its 1982 *Annual Report*.
7. Vol. 2, p. 48. For developed market economies personal consumption over 1960-77 was virtually static around 59 per cent (61 per cent in 1978) while for developing economies it fell from 71.5 per cent in 1960 to 60 per cent in 1978.
8. See especially *WDR 1982*, chapter 1.
9. *ibid*, chapter 4.
10. For a detailed examination and commentary, see C Allison and RH Green (eds), 'Accelerated Development In Sub-Saharan Africa: What Agenda for Action', *IDS Bulletin* 14 (1), 1983.
11. See pp 35 ff and 92 ff.
12. To judge by the 1982 *Trade and Development Report* and its obvious uncertainty as to what themes to stress for the 1983 Belgrade UNCTAD.
13. Especially succinctly in volume 1, but in more detail in pp 1-68 of Volume 2.
14. *North-South : A Programme for Survival* (*Brandt Commission Report*), London: Pan, 1980.
15. *Trade and Development Report*, Vol. 2, pp. 141 ff.
16. UNCTAD in Vol. 2, chapter 1 says it defies explanation which may well be true, but is of little help in analysis, projection, or prescription.
17. cf. UNCTAD *op. cit.*, Vol. 2, pp. 3 ff, 27.
18. cf. *WDR 1982*, chapter 3 and even *Accelerated Development*, chapter 2.

19. See UNCTAD, *op. cit.*, Vol. 2, pp. 4-9; IMF 1982, pp. 29 ff.
20. Report summarised in *Financial Times* (London) 6 October 1982.
21. *Financial Times* (London). Leading articles, 6 October 1982.
22. *ibid.*
23. UNCTAD, *op. cit.*, Vol. 2, p. 4; World Bank 1982 *Report*, p. 27.
24. Oxford University Press for World Bank, 1982.
25. *United States Participation in the Multilateral Development Banks in the 1980s* (Washington DC, US Department of the Treasury, 1982).
26. IFAD, Rome, 1982.
27. Especially, pp. 23 ff.
28. For an earlier and more detailed (as well as less pessimistic) presentation by the present author, see 'Gale Warnings : Fragments of Charts and Guides for Navigators,' *Development Dialogue 1980*: I, and, for an array of views with a broadly positive balance see *Beyond Brandt : Menace and Hope*, Rome : Society for International Development, 1980.
29. UNCTAD, *loc. cit.*
30. *cf.* A R Jolly and Susan Joekes (eds), 'Britain on Brandt', *IDS Bulletin* 12(2), April 1981. Since then the outlook has worsened with the failure of the Cancun Summit.
31. For example MS Wionczek 'The Brandt Report', in *Third World Quarterly* 3(1), January 1981; C Vaitsos, 'International Keynesianism, World Business Activities and National Development' in Jolly and Joekes, *op. cit.*
32. For example D Seers, 'Muddling Morality and Mutuality', *Third World Quarterly* 2(4), October 1980; PD Henderson, 'Survival, Development and the Report of the Brandt Commission' in Jolly and Joekes, *op. cit.*
33. For a fuller exposition, see sources cited at note 28.
34. Oddly some critics—*e.g.*, Seers *op. cit.*,—see it as anti-North, which the present author finds incredible.
35. The first is UNCTAD's and the second the Bank's estimate.
36. *WDR 1982*, p 1.
37. *cf. Accelerated Development*, *op. cit.*, chapters 1, 3 and Allison and Green, *op. cit.*, especially overview article by editors.
38. UNCTAD, *op. cit.*, Vol. 2, p. 6; World Bank 1982 *Report*, pp. 27-8.
39. IMF 1982, p. 29.
40. *ibid.*
41. For a case study see RH Green, "No Worst There Is None?" Tanzanian political economic crises 1978-????', *Africa Out of Recession* (Conference report), Scandinavian Institute of African Studies, Uppsala, 1982.
42. *WDR 1982*, p. 27.
43. See E Stern (Senior Vice-President, Operations), 'World Bank Financing of Structural Adjustment' in J Williamson (ed), *IMF Conditionality*, Washington DC: Institute of International Economics, 1983.

44. For a fuller sketch of non-viability of African economics see RH Green " 'Naught for your comfort'—African Economies in the mid-1980s", *Africa Out of Recession* (Conference report), SIAS, Uppsala, 1982.
45. It is commendable for the Bank to pursue that quest and necessary for the Group of 77 to do so.
46. *Pace* the World Bank's 1982 Report's presentation of the outcome of the 1981 UN Conference series on least Developed Countries (p. 33), which almost no other observer (least of all the organisers, UNCTAD) shares.
47. Possible fairly rapid rises by Italy and Japan will be largely or wholly cancelled by real declines from the USA and UK while the 'like minded' group's aid expansion of the 1970s will not be maintained because they are over, at, or near, their 0.7 per cent (or 1 per cent) of GDP target rates of transfer, and themselves have very low GDP growth rates.
48. In 1978, net inflow from bank borrowing was $34 billion, in 1981 $18 billion, despite a $65 billion growth in total external indebtedness (and a $99 billion debt service bill) in the latter year, (1982 World Bank *Report*, pp. 24-5).
49. The title is from *The Economist* (London) of 25 September 1982, but the thought (whether welcome or not) is widespread.
50. Discussed in UNCTAD, *op. cit.* Vol. 2, pp. 100-104.
51. Highlighted by the World Bank in *WDR 1982*, pp. 52 ff.
52. *op. cit.*, pp. 31-8.
53. 1982 World Bank *Report*, pp. 83-94.
54. See *WDR 1982*, p 29, on the 1970s Brazilian breakthrough into substantial manufactured exports.
55. Contrary to rather simplistic neo-liberal presentations (*eg.* in *Accelerated Development*) which overlook these 'inconvenient' facts.
56. Noted *passim* in both World Bank 1982 *Report* and *WDR 1982*.
57. See E Iglesias, 'Latin America is no model' in *Beyond Brandt: menace and hope*, *op. cit.*
58. See UNCTAD, *op. cit.*, Vol. 2, pp. 148 ff.
59. For a fuller presentation of this argument in respect to Tanzania and to sub-Saharan Africa, see ' "No Worst, there is None?" and 'Naught For Your Comfort', *op. cit.*
60. There have been some such splitting allocations—usually on political much more than economic grounds—but, since the decline of 'OPEC Shock' in 1976, they do not seem to have added up to any coherent or adequately financed strategy.
61. As opposed to the broader and more usual sense of permitting capacity operation of the economy with lower imports than if the import substitution plant did not exist and the final product were imported. In that sense, a series of import substitution projects can raise both total imports required and their ratio to GDP.
62. This is not to argue that all trade restrictions are good, or that all

protection leads to viable, integrated industrial sectors—a piece of mystic theosophy as unsound as uncritical endorsement of trade liberalisation.

63. The combination of overheating, high inflation, an overvalued currency, free currency convertibility, overborrowing, and trade liberalisation, interacted to create the crisis, but it was the liberalisation which made it appear impossible to control in its earlier stages in 1981 and the first quarter of 1981.
64. UNCTAD, *op. cit.*, Vol. 1, p. 2; Vol. 2, pp. 52-6.
65. See, for example, R Liebenthal, *Adjustment in Low Income Africa 1974-8*, Washington DC: World Bank, 1981.
66. UNCTAD, Vol. 2, p. 48.
67. See "No Worst, There Is None?" *op. cit.*, for the fuller account.
68. Recent figures indicating 25 per cent of non-oil South economy trade with other South economies suggest more progress than is usually assumed. However, they are so far from typical South economy trade patterns as to raise questions either as to their accuracy of meaning (*e.g.*, if 90 per cent of the exports are from 10 to 12 middle income industrialising economies).
69. See 1982 World Bank *Report*, pp. 92-93, on Latin America and Caribbean Region experience.
70. See 'SADCC : An Unconventional Approach to South-South Regional Development' (Introduction by RH Green), *Africa Out of Recession* (Conference Paper), SIAS, Uppsala, 1982.
71. The failure of the Brandt Report was not to create any such sense of importance in most of its priority audience—the Northern decision takers.
72. The proposed alliance is tactical—not a proposal for South conversion to free trade. The 'free traders' current concern is aggressive Northern restrictions, not defensive Southern ones.
73. See J Williamson (ed) *IMF Conditionality*, Institute of International Economics, Washington DC, 1983, for a survey and a range of papers illustrating this.
74. The point is not to humiliate the Bank—everybody makes mistakes—but to understand what has gone wrong or is no longer relevant requires admitting and understanding one's own mistakes, and proposing new approaches is far more convincing if the reasons for change are stated openly (especially to those who have been following the previous advice and are now told they were wrong to do so!).
75. While the main links should be to such institutes there is no reason why, if particular circumstances justify, Northern institutes or individuals could not also be used for specific tasks. Self-reliance and co-operative solidarity do not mandate reverse *apartheid*; but do forbid general technical mendicancy.
76. In many important negotiations the technical and professional backing of at least many Southern countries' negotiators is

appallingly weak—with predictable costs. The co-operative measures taken by the ACP states (both *via* a small secretariat, and specialised working committees pooling the expertise of their missions to Brussels) in their negotiations and liaison with the EEC suggest that mutual support is practicable and useful.

77. Some of the issues which might deserve priority are outlined by GK Helleiner in 'The relevance of accepted western economic theory to the negotiations on a New International Economic Order' in *Beyond Brandt : menace and hope, op. cit.*
78. Whether this can be achieved is most uncertain. However, the continuing failure of political variants of monetarism and supply-side economics to produce the goods (as opposed to producing unemployment, stagnation and social crises) may lead to a willingness to re-examine the case for a global application of a variant of Keynesian output/employment revitalisation.

17

The Global Problems in An Interdependent World

JOZSEF BOGNAR

It was still generally assumed in the sixties that economic problems will be easier to handle as a result of the scientific and technical revolution. At that time we already had some knowledge of the complex and contradictory "starting conditions" of the Third World, but the optimists confidently proclaimed that the enormous gaps between the different development levels could be reduced substantially within a few decades.

Contrary to these expectations, in the recent decades *mankind is living through a dangerous development crisis* which at present can be seen in its most serious form in the economy. The economic crisis has spread from the national economies to international trade and also to the international monetary system. It appears obvious that the protracted, severe crisis will radically transform the conditions for economic development and that survival and the further development of mankind depend on flexible adjustment to the new circumstances. At present, however, there is a sharp contradiction between the requirements of overcoming the economic crisis and establishing the new type of economic development on the one hand and the present evolution of the international political and security situation on the other.

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Our intention here is to examine primarily the largest and most comprehensive group of phenomena : the global problems.

One of the characteristics of the global problems is that *they affect all inhabitants of the globe*—even if not to the same extent—regardless of the social system, nationality, religious convictions or social situation. Another characteristic is that they can only be handled and solved *on a global basis.* In an international political system based on the independence of nation States and where the international bodies cannot adopt decisions binding on the nation States, a global basis *can only mean broad international understanding and organized cooperation.*

Among the global problems, we wish to place particular emphasis on the following :

— evolution and distribution of the world population in the coming decades, and the related food problems ;
— the limitations of natural resources ;
— the threat to ecological systems and our environment ;
— the equivocal nature of technology and science ;
— the present world political structure ;
— development of the Third World ;
— the problem of economic interdependencies in a period of political "high tensions".

In this century world population will increase four-fold and will be above 6 billion in the year 2000. The population of the developed countries—advanced capitalist countries and the European socialist countries—can be expected to stagnate or decline and the great majority of the annual increase of 80-90 million will be in the Third World. Demographers and biologists agree that even after 2000 the rapid population growth cannot be stopped abruptly for "artificial" birth control comes up against strong religious and social prejudices. The position of the Roman Catholic Church in this respect is well known—it represents a very important factor, particularly in the case of Latin America—and also the very broad mass resistance that has been encountered in a number of Asian and African countries. It can be assumed that the growth in world population is

not likely to be stopped before the level of 10-12 billion is reached.

It is obvious that the *size* of the word population influences all other economic areas : the quality of the standard of living already attained or set as a goal.

The accelerated population growth in the Third World is the result of the *contradiction* between the scientific-technological and the social conditions for development. The mortality rate has been successfully reduced with the aid of methods developed in the advanced countries, but the historically determined reproduction habits of the population require a much longer time to adjust to the new situation.

The anticipated distribution of the population in the decades around the turn of the century also mean a new situation, for in the year 2000, 81 per cent of the population will live in the developing countries—including the People's Republic of China among the developing countries—and only 19 per cent will live in the developed world. It is obvious that under such circumstances there will also be a change in the relative importance of the continents and regions ; there will be a great increase in the economic and political aspects of the role of the Asian continent where the outlines of an economic centre (around Japan), are already beginning to emerge, the influence of the Latin American region is substantially increasing—despite all the difficulties, disorders and inequalities—and new development energies are arising in the Middle East too which, for the time being, is struggling with very serious internal contradictions.

A shift is also occurring in the significance of the world oceans ; development centred around the Atlantic ocean is being shifted to the Pacific Ocean. Eleven capitalist countries can be found in the Western Pacific basin : Japan, South Korea, Hong Kong, Taiwan, Singapore, Thailand, Malaysia, Indonesia, Philippines, Australia and New Zealand. The People's Republic of China also has a long Pacific coastal region.

Based on Japan as the technically and economically most advanced Asian country, economic development in this region has greatly accelerated in recent years. This phenomenon merits attention because the basis of the upswing is not a region characterized by an abundance of energy resources and raw

materials—although Australia is a continent very rich in raw materials—but the *acceleration of industrial development.* Structurally, this industrial development differs from the traditional, because it has not begun with textiles exports but of some advanced manufactured products.

The role of this Pacific Ocean region in world trade is increasing at a spectacular rate and in 1981 their share in world exports was 16.9 per cent (of which Japan 8 per cent) and of world imports was 16 per cent (of which Japan 7.1 per cent). (Merely to give an idea of the relative magnitudes, it is worth noting that in the same year the share of the USA in world exports was 12.9 per cent and of world imports 13.8 per cent, while that of the CMEA countries in world exports was 8 per cent and in world imports around 7 per cent.)[1]

Parallel to these process, a marked shift is also taking place in the internal economic and population situation in the United States. Due to internal population migration and a change in the composition of the immigrant population (in favour of Asians and Hispanics), the population of the Western and South-Western States is rising rapidly and in economic terms California has become the biggest State in the USA. The present world economic situation—the acceleration of the technological revolution and the sharp growth in the funds devoted to the armaments industry—favours the economy of the Western States of the U.S., while the steel crisis and the problems of the auto and other traditional industries are primarily affecting the East coast States.

The differences that can be observed in the distribution of population and new economic activities, as well as in economic dynamics, are also strongly influencing the internal and external policies of the USA. The result of the shift in internal politics has been that at the last two elections the president of the United States has not been selected from among the East coast politicians, while in the area of foreign policy, politicians from the West coast tend to favour a Pacific rather than an Atlantic policy.

This shift is very significant and over the long term could affect the relationships established between Western Europe and the United States. It cannot influence the relationship with the Soviet Union since both countries are global powers. Naturally,

this can (and does) give rise to problems in that politicians from the West coast States are less familiar with Europe, including also Eastern Europe. However, it can be assumed that this situation will change within one or two terms.

The rapid growth in world population and the change in its distribution raises new problems for the food supply too. According to data of the FAO, at present 500 million people face the threat of starvation, while the World Bank's estimate is 750 million. The number of undernourished and threatened is rapidly rising as a result of the rapid population increase. In addition, this growth is largely concentrated in the developing countries where the agricultural productive forces are underdeveloped and where the social, economic and organizational mechanisms that encourage those on the land to commodity and surplus production have not yet taken shape. Nor is the most mobile factor in tropical agriculture, water, fully exploited either because the repair of destroyed irrigation systems or the creation of new systems require vast and costly investments and certain international agreements. Nor is it an easy task to bring new areas under cultivation, for the destruction of forests on a large scale can result in serious—and not only regional—climatic dislocation.

The suitable handling of this global problem in part requires that

— the advanced countries extend aid to the developing countries in the development of their agricultural production ;
— for decades they ensure in some form the quantity of food needed to cover the difference between the agricultural output of these countries and the effective consumption.

However, it must be clearly pointed out that in the present world economic system, under the present commercial and financial conditions this is not possible. Consequently, in order to avoid the catastrophe an international institutional system must be established to promote the solution of these problems.

The limits of natural resources represent the second global problem. Earlier, in the spirit of "technological optimism" it

was considered that the natural resources are *essentially* unlimited, at the most there is a deteriorating trend in the quality and extraction conditions of the minerals extracted. If follows logically from this concept that a steadily increasing volume of both non-renewable and renewable raw materials is required for the growth of production and consumption.

This form of technological optimism can now be regarded as outdated for evaluation of the limited or "unlimited" nature of natural resources cannot be independent of

— how many people have to be supported ;
— at what standard of living ;
— and what influence the quantity and methods of extraction have on our natural environment.

Classical economics included the concept of free goods (air and water) which have no price. It is now obvious that there are no longer any free goods, air and water also have a price. Indeed, some forecasts even suggest that water requirements (for production and consumption) are rising so rapidly that they will become one of the most problematic factors in mankind's further progress.

It is well known that the per capita area of arable land is declining sharply in the developing countries. There is also increasing acceptance of the view that land suitable for agricultural production can no longer be gained *at the expense of forests*. However, it follows from this that the ruthless exploitation of timber resources carried out in certain tropical countries must also be stopped ; in the future logging and afforestation must be carried out *simultaneously*.

Similar restrictions must also be anticipated in the case of non-renewable minerals.

The market disruptions that occurred in the past decade in connection with energy resources (particularly with oil) are well known. The big fluctuations are now levelling out although energy prices have stabilized at a very high level. Over the long term, however, this problem will obviously remain a serious one and will exert a great influence on possible economic policy alternatives.

Further substantial changes can still be expected in the

energy structure between 1980 and 2030 according to forecasts. The role of oil will decline (from 42 to 25 per cent), the decline in the proportion of coal will continue (from 26 to 19 per cent), the role of gas will increase (from 16 to 27 per cent), nuclear energy will rise from 3 to 10 per cent, while solar energy, hydro energy and other renewable resources will rise to 19 per cent.[2]

As a result of industrialization, the energy consumption of the developing countries will continue to rise sharply and their energy consumption structure will reach the 1980 structure of the advanced countries only by 2030.

It is obvious from all this that a rational evaluation of the limits of natural resources lead to an economic policy differing considerably from that followed hitherto. This does not mean that we face a catastrophe in the immediate future, but it is obvious that we must not threaten the future generations through ruthless resource exploitation. For this reason, we must make carefully considered use of natural resources, that is, they must be used efficiently. This implies :

— the rational protection of land areas suitable for agricultural production ;
— rational forestry management in the interest of protecting the climate and ensuring a supply of energy for populations in tropical regions ;
— the development of resource-saving technologies ;
— the establishment of interest and incentive structures that take these requirements into consideration in the national and international economies.

The following examples provide concrete illustrations of this. A *resource-saving* approach is naturally also essential in the *extraction* of natural resources (secondary oil production, recycling of pit-heaps, reduction of losses in long-distance high-tension lines, new "decentralized" energy forms—biomass, wind, solar energy—use of what were previously timber by-products for the furniture industry, etc.). However, greater possibilities can be found in the rationalization of use (reduction of fuel consumption of internal combustion motors, improved efficiency of boilers and other heating installations,

proper insulation of homes, the development of energy-sparing technologies and industries, etc.).

Since the oil crisis all the major capitalist and socialist countries have achieved substantial savings in *specific energy consumption*. Nevertheless, there are still very substantial further possibilities in this area. The essential thing is that the energy and raw materials consumption index has now become one of the most important requirements for the modernity of different installations and technologies. All countries exporting and striving to achieve rapid technical progress must, therefore, take this into account.

The *biosphere* is the field of organic life on the earth, approximately 15-16 km in thickness. This space is of enormous significance for man. However, the accumulated "side effects" of economic and industrial development in the past decades threaten the biosphere in a number of respects. The deterioration and destruction of the biosphere has numerous manifestations, appearing in increasingly serious forms : destruction of fertile soil, pollution of the biosphere, rivers and oceans, the rising temperature factor related to the presence of carbon monoxide. Soil erosion also occurs in the most advanced countries. The destruction means a decline in the land area used for agricultural production.

Air pollution, especially in the big industrial agglomerations, is reaching enormous proportions. A recent phenomena is acid rain, particularly in the Scandinavian countries ; in the opinion of scientists and experts this is caused in Europe predominantly by British and West German chemical industries.

In some cases the deteriorating quality of waters is now threatening organic life in the water : the fish are dying out in many places and especially species more sensitive to environmental conditions have disappeared from many rivers. These unfavourable trends are related to certain methods of industrial and agricultural production, to bulk oil transport and to the discharge of unpurified urban sewage into rivers.

The increased carbon monoxide content of the biosphere referred to above can lead to a rise in temperature that will have an influence on the climate with catastrophic consequences even in the next decade.

These problems are global in nature, not only in their origin,

but also in their *effects* and reduction or elimination of the negative activities and influences can only be achieved through broad international co-operation. The objectively necessary international co-operation should extend :

— to joint and coordinated investments carried out by the partners together or in harmony, to prevent a further deterioration of the situation or to achieve an improvement ;
— to scientific co-operation directed at identifying and observing certain currently or potentially threatened zones and at elaborating an action programme to this effect ;
— to the creation of bodies operating on the basis of international agreement, which could ban certain procedures in particularly serious cases.

The *equivocal nature of science and technology*—which could be found, within certain limits, in the past too although no particular importance was attached to it in the general optimism of the time—has grown stronger over the past decades and will be even more marked in the furture. Since the industrial revolution it has been considered that *technology* was a driving force of economic development that would solve all problems with time and whose effects could only be beneficial from social and political aspects. It was assumed that certain conflicts may occur transitionally between forms of technical development and the established social relations, but society would *gradually* adjust to the changes for they serve its interest.

At present, however, new developments must be anticipated for

— there has been a great acceleration in scientific and technical progress ; entirely different methods and means are now used to organize and encourage it from those applied in the first half of the 20th century ;
— the present state of human society is extremely sensitive : on the one hand, the higher level of development is accompanied by an increasingly extensive system of social relations and dependencies and, on the other, both the national economies and the international economic

and political systems are passing through a structural crisis ;
- these crises also extend to the internationl security systems whose operation and structure is inseparable from the scientific and technical background ;
- in the course of technical progress we are operating systems that exert an ever growing influence in a deteriorating biosphere.

It is no longer a question of discoveries and inventions being beneficial but used by reactionary or inhumane political systems for bad purposes, since in our present age the majority of scientists and researchers in employment are working for the armaments industry ; that is, the *military invention is the primary goal* and its application for peaceful purposes is a *secondary* by-product. If certain aggressive circles can dictate policy in one or more big countries it is obvious that—in the interest of their security—other countries are also obliged to arm.

Science has been traditionally regarded as a *problem-solving* factor. However, the dialectic of our age shows that with the solution of old problems we create new problems ; that is, development is not leading towards a "problem-free" world. To date concern has rather been caused by the fact that we have begun to threaten the equilibrium of our environment (the biosphere) as a result of the application of discoveries and inventions and their mass spread. This, too, represents "intervention" in the ecological systems, which, of course, should only be done with the greatest care. But the danger is increased by the fact that *biology* is becoming the leading science of the future, although, naturally, physics and chemistry are not declining in importance. But through certain discoveries and capabilities of biology we are now able to intervene *directly* in the operation of certain natural systems. Genetic engineering, gene banks, etc. are methods whose application has already begun or is only a step away. However, the appearance of biotechnology has created a new situation in social, moral and political sense. In this new situation, not only does the way in which we may intervene in functioning natural systems represent a problem, but also the *relationship that exists between the*

possibility of intervention and the established social-moral attitudes and value systems. In this respect, it is not only political systems that we have in mind, but that over the course of past centuries it has been regarded as unacceptable to intervene *artificially* in the sex, abilities and characteristics of an unborn individual since the natural systems operated very well in one respect (the balanced proportion of the sexes) and intervention in other areas was regarded as *dangerous.* Whatever the solution brought for these questions in the future, it is obvious that the given state of society, the opinions established on the questions concerned and the dangers that could arise with unsuitable application must all be taken into consideration.

It is thus obvious that there are obstacles to the application of biological discoveries in human society ; public authorization and international agreements must, therefore, be required for their application.

We are living in a period when questions of the international economy and trade are in close interaction with *international political questions.* It was generally assumed earlier that co-operation among the national economies and the internationalization of certain processes leads to a decline and blurring of the differences between nations. However, at present there are about 180 national economies in the world and the national economic interest plays the decisive role in their activity.

This fact means that global questions or questions arising from interdependence could only be solved in well organized *cooperation* sincerely supported by all participants. However, this co-operation—which is the decisive condition for the survival and development of mankind—cannot be achieved at present ; indeed, it cannot be achieved at all under conditions of serious international tension, spreading conflicts, the arms race and the cold war atmosphere.

It must also be taken into account that—unlike the fifties—the rivalry between the two global powers extends to the whole world. In addition, many political crises, shifts of power and conflicts are arising in the developing countries—as a characteristic combination of internal political and foreign policy factors—that are in the early stage of their national development. These changes undoubtedly affect or could affect the

balance between the global powers ; any steps taken by one side lead to countersteps by the other.

The equilibrium system of "mutual deterrence" in the military field is extremely costly and, moreover, is very fragile.

There is an unquestionable need in the present world economic situation for *new political decisions* and *new institutions*, but their adoption, initiation and operation require a certain degree of political trust and mutual goodwill. However, in the given international political system, under the conditions of arms race, it is hardly possible to talk of mutual trust or goodwill.

The limitations created by the international political relations and the contradiction between the national economies and the requirements created by the international economy must be resolved through rational action or else the world economy will collapse.

The *economic and social situation of the developing countries* is a global problem, not only because developed and the developing countries exist on the same planet, but also because the inequalities that have arisen and are as yet showing no decline are dangerous from the political viewpoint and irrational from an economic viewpoint. It is not the hunger uprisings or anarchistic clashes causing conflicts that make the problem politically dangerous in themselves, but the fact that survival and development in such a dangerous world as ours are only possible if mankind realistically and correctly appreciates the dangers that threaten human lives. But the starving masses deprived of all hope, the millions who have grown indifferent in their sufferings and lack of prospects are incapable of appreciating the dangers for they have nothing to lose. It is the rich who fear nuclear annihilation, the poor must live in fear of starvation as some spokesmen of the Third World point out.

The problems related to the economic development of the Third World or to acceleration of this development are complex. What is required for the acceleration of development is a system that places economic development in the centre of social and political efforts, which is only possible if the productive forces—including the creative ability of individuals, groups and small communities—can be genuinely released.

Experiences show that a politically organized power elite

is needed to initiate and direct development—because of the low level of qualifications of the great majority of the population and their passivity, the weakness of the middle strata and the lack of national cohesion. Naturally, "the power elite" cannot be uniform since it includes persons thinking in political categories and technocrats, revolutionaries and conservatives alike. The flagging of a particular development stage or the emergence of serious economic and social problems generally lead to a change of rulers. If the conflicts within the power elite become very acute, the army generally intervenes in order to avoid civil war or anarchy. There are indications that in a large number of countries the army represents the index of the scales. Naturally, the power elite cannot ensure development over the long term, but it is to be hoped that with the advance of education and training and the establishment of economic interests on a broad scale, mass forces capable of ensuring democratic development will arise.

Nevertheless, however decisive may be, the significance of development fed by "internal" resources, interest relations and incentives, acceleration of the development of the Third World—which is essential because of the international political and economic interdependencies—can only take place with the carefully organized and coordinated aid of the developed world. The developing countries are demanding in the concept of the new world economic order that this aid must be made one of the decisive factors of the world economic system in the coming decades.

The essence of the concept of the new world economic order is thus that an integral harmony must be achieved between the problems of the developing countries and world economic processes. What is needed is not simply aid, credit or transfers of technology which are incidental and represent only a supplementary factor in world economic processes, but organs and institutional solutions whereby the transfer of means from one half of the world to the other is carried out as an integral and inseparable component of world economic processes.

Critics—mainly in the socialist countries—who support the notion of New International Economic Order but also recognize its weaknesses, correctly pointed out that the transfer of resources can only bring the desired results if significant social

and economic reforms are also introduced at the same time in the developing countries. For it is beyond question that the income distribution in the countries of the Third World is extremely uneven and hinders both accumulation on a social scale and the satisfaction of the basic needs of the broad masses. This means that the transfer of resources must be linked to the introduction of the necessary reforms.

The theory of the New International Economic Order has been embraced and further developed by certain progressive Western circles, most remarkably by the Brandt Commission, which have taken the question to mean that in the case of economic stagnation of the Third World, the developed capitalist countries are unable to export, and without exports they are incapable of developing economically. At the end of the seventies the strengthening conservative circles adopted a firm position against the Brandt Plan and the transfer of resources and strove to redirect the dialogue and bargaining with the Third World back into the concepts and sphere of action of the free market and private investments. However, these methods represent at the most deferment or loss of time because the present economic crisis cannot be overcome without a suitable relocation of resources.

The economic problems of the Third World lead to the notion of *interdependence*. Economic contacts create relationships of mutual dependence among nations. The Communist Mani-festo already referred to this fact. However, the relations of mutual dependence have been established in a world in which there are about 180 national economies, different socio-economic systems and extreme variations in the levels of economic development.

The relations of mutual dependence apply not only to commodity and money relations in this period, but also to economic policy. At present debts of 1,200 billion dollars have been accumulated in the world economy and the debtor countries must pay 130 billion dollars a year in debt servicing. In practice this means that the debtor countries must export much more than they import in the coming years. But how can the indebted countries export more when world trade is stagnating and the developed capitalist countries are not capable of importing more? Even if this could be achieved, it is obvious that the

purchasing power of the indebted countries would be reduced by 130 billion dollars a year, which means that they could import that much less ; but the advanced capitalist countries are not capable of recovering from their economic stagnation without increasing exports. Do the conditions now exist for a globally considered and harmonized international economic policy?

There is now growing recognition that the restructuring of debts (transforming medium-term loans into long-term loans and short-term credit into medium-term credit) and the reduction of interest rates (which assumes the reduction of budget deficits) are unavoidable. The need for the introduction of a new monetary system has been raised in a number of quarters—not only in the developing countries, but also in France.

These ideas and aspirations cannot be put into practice overnight, but it is clear that the further deterioration of the economic situation and the deepening of the crisis will make the inevitability of these steps obvious for a growing number of experts and financial and business leaders.

However, it is also beyond doubt that economic changes of such major importance can only be introduced where there is a certain political agreement. And in the present situation the outlook for this is not favourable.

If the international political situation does not improve it is theoretically possible that there will be international recognition of a *state of economic emergency* and consequently, tacit acceptance of the "depoliticization" of certain economic steps.

If acceptance of this state of emergency and attainment of the resulting economic "autonomy" also prove impossible, the individual countries will be obliged gradually to make their own external economic steps independent of the international political situation—depending on their concrete situation. This will naturally bring friction andcl ashes, but its neglect will lead to an economic catastrophe. Thus, in the majority of cases, taking these steps becomes a problem of survival.

Undoubtedly, the global problems—including in particular the system of interdependencies—are opening a new era in the system of international economic and political relations. Historically, these problems arise from the differing nature and speed of the various components in economic and social development

and from the inadequacies and one-sidedness in our knowledge of the natural systems.

In this century—and especially since the Second World War—scientific and technical development has dictated the nature and speed of economic and social development. In keeping with the methods, degree of organization and purposeful nature of scientific research, inventions have been made one after the other and rapidly applied and spread by the economy that is motivated under compulsion from international competition. And the industrial production and marketing systems that have been changed in this way have introduced the innovations into mass consumption through the new goods and services. The use of these goods and forms of consumption gave rise to new social habits and aspirations, but they also created new problems in society and the way of thinking that subsequently came into *conflict* with different components of the existing values and institutional system.

The accelerated scientific and technical development created new interdependencies and set of relationships that could only be followed with major transformation of the existing internal and external power and social structures. Moreover, certain effects of scientific and technical development are only felt in the case of accumulation, that is, when the goods and services concerned have already been introduced on a very broad scale. For example, the negative influences of automobile transport on the biosphere and on living conditions only became apparent by the time every second or third family in the developed world already owned a car and the majority of goods transportation was also handled by road transport.

The "ideology" of the accelerated scientific and technological development did not devote sufficient attention to the questions of the natural systems. This was definitely a mistake, for man is not only a social being, but also a natural (biological) creature in many respects of his basic nature and activity. Moreover, the natural systems only "serve" human aspirations adequately if their regularities are always taken into account. However, if the direct (*e.g.*, mining, agriculture, the polluting effects of large-scale industry) and the indirect (biological) interventions in the natural systems greatly increase in quantity and intensity, certain forms of "intervention" cannot be applied

because they threaten the equilibrium of the physical and chemical processes that form the basic conditions for human existence.

Solution of the global problems thus requires a new economic development concept, harmonization of the different development factors and the creation of new structures at both the national and international levels. It is naturally open to question whether these international structures suitable for cooperation can be created at all in the world today burdened with political tensions and the arms race. But if this is not achieved, the international economic and monetary system is threatened with collapse within the foreseeable future. And the collapse of the international economic and monetary system would be a catastrophe for most national economies and would create anarchy within the system of internal economic and financial relations.

Is there a way out of the present situation? Is it sufficient to feel a *sense of danger* and realize the situation for mankind (or the representatives of political and economic power) to adapt new forms of behaviour and political norms in the questions concerned? Can the threat of economic collapse break through the political structure that is concentrated on other questions? It is necessary for some local, regional or partial catastrophe to occur first?

We naturally hope for the first because that in itself could initiate new actions. Unfortunately, we cannot exclude the other possibility either : the occurrence of a local, partial catastrophe.

We speak of a *supplementary* system because a new kind of economic action is needed, but the institutions and mechanisms that operate the present action system cannot be changed arbitrarily or very rapidly. However, there are two preconditions for the establishment of such a supplementary system of action : the elaboration on a scientific basis of system of action concerned (in the present case, this means the global system of action), and the ability of national leaders to conduct talks on the world's present international political and economic system.

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The North-South Dialogue Revisited : some personal Reflections

IBRAHIM F. I. SHIHATA

Introduction

A few years ago, I had an opportunity to comment on the ongoing negotiations on economic matters between developed and developing countries, a process popularly known as the 'North-South Dialogue' which I then found, however, to be more in the vein of a 'collective monologue'.[1] Nothing substantial has happend since then to advance that process towards significant constructive results. Meanwhile, the world economic situation all but worsened for the North and South alike. This raises important questions as to the real obstacles which stand in the way of successful negotiations in this most important field, and the elements which should be maintained in the form and substance of this complex process in order to make it yield workable compromises.

It would be unduly repetitive to recite the events which have taken place since 1974, the year that witnessed the beginning of formal world-wide discussions on the need for structural changes in the world economic order. Developing countries took the initiative in starting these discussions. They were moved by their awareness that the world economic recession and the monetary disorders which began to loom in the early

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1970s were likely to have their most devastating effects on their own economies. They also saw in the sudden success of the oil-exporting developing countries in improving their terms of trade, and in the unique position of these latter countries in controlling the developed world's import requirements of a most vital commodity, important leverages that could be deployed to negotiate a new package with the North involving other economic and financial issues. On their part, the developed countries, mainly concerned with their own deteriorating economic performance, showed from the outside little interest in an overall review of global issues with the developing countries as a group. They seemed to have reacted seriously only when specific issues were to be discussed in ways and in fora which promised tangible benefits to them rather than general political 'declaration' and ambitious 'plans of action'. In particular, they refused to accept fundamental changes in a world order which was mainly devised by them and had been, on the whole, working to their benefit. The rhetoric which accompanied the South's demands for a fundamental change seemed also to have inadvertently contributed to the North's lack of enthusiasm for a process which was, from the latter's point of view, untimely at best. In addition, the process as presented seemed to have unrealistically required great concern for long-term considerations from politicians deeply involved in immediate problems which had little promise of quick solutions. The resolutions of the Special Sessions of the UN General Assembly (1974 ; 1979) ; the prolonged debate in the Paris Conference (1975-7) ; the detailed recommendations of the Group of 24 (especially in 1979), and of the Brandt Commission (1980) ; the reports of the IMF-World Bank Development Committee and its 'task forces', as well as the short exchange of views at the Cancun Summit (1981), all stood short of producing any of the major changes which optimistic visionaries of the early 1970s projected as the pillars of what they, enthusiastically albeit somewhat vaguely, called 'the New International Economic Order.'

The debate continues, notwithstanding, without clear signs that future discussions will be any different from previous ones. The fora are projected to be basically the same, most noticeably 'global negotiations' in the UN General Assembly and

UNCTAD VI. The diagnosis of the problems and the remedies proposed for solving them do not seem to have altered either. To pre-empt a fruitless repeat performance, substantial efforts are required to improve the process, change the attitudes, and even modify the demands, all within a framework geared to reaching practical results. Above all, the time has come for participants in this process to look for acceptable answers to the basic economic problems which can be solved through joint measures, instead of wasting valuable efforts in drafting typical 'plans of action' which stand no chance of implementation.

Two Case Studies : IFAD and the Common Fund

In our attempt to consider required changes, it may be useful to shed some light on two specific experiences where North-South negotiations yielded some concrete results, *i.e.*, the negotiations which resulted in the agreements establishing the International Fund for Agricultural Development (IFAD) and the Common Fund for Commodities. Each of these negotiations were held under different auspices, followed different procedures and involved different issues, and each was concluded with a different degree of success. The involvement of this writer in both cases, especially in the negotiations of IFAD where he represented Kuwait and often spoke on behalf of OPEC countries and, on occasions, of all developing countries, may be helpful in showing what he believes to be elements of success in this complex process. This personal account may be of particular relevance in view of the fact that both cases are often cited as positive achievements of the North-South Dialogue without paying due attention to important contributing factors which may not be widely known.

IFAD

The idea of establishing an international Fund to finance agricultural development in developing countries emanated from several sources at a time when the establishment of a new financial institution was the most commonly proposed remedy for an emerging international problem. The proposal took concrete form through reports prepared by the Secretariat of the World Food Council in 1974 and 1975. It was suggested that

the financing of this Fund would come from both the developed and the OPEC groups of countries, more or less on equal basis, with each of these groups holding one-third of the total votes in the governing bodies of the new institution, while the rest of the developing countries, though under no obligation to contribute, would also enjoy one-third of the voting power. The idea was presented as a new direction for financial co-operation, giving, for the first time in an international financial institution, two-thirds of the votes to developing countries, while, at the same time, leaving two-thirds of the votes in the hands of the donor countries. The key element in this formula was obviously the characteristics of OPEC members as both developing countries and major donors. A typical UN negotiating conference of interested countries was held in Rome to discuss the proposal, after it was supported in principle by the World Food Conference and the UN General Assembly. As the debate started, the major prospective donors of the North questioned the need for establishing a new full-fledged institution to tackle a problem which could well be handled by the World Bank Group and regional development banks. They were tempted, however, by the prospect of having a small group of developing countries (OPEC Members) coming to share, on an equal basis, a burden traditionally considered to be that of the developed nations. Their main concern seemed then to lie in ensuring, if such a fund was to be established at all, that it would have this 'promising' feature without emerging, however, as a full-fledged development agency that would appraise projects and administer loans on its own, thus duplicating the work of the other international financial institutions in which they play the major role. OPEC countries, on the other hand, saw no reason for sharing on an equal basis with the OECD nations the financial burden of IFAD at a time when the combined GNP of OPEC members was equivalent to only some 7 per cent of the GNP of the OECD countries. To them, the basic attraction of the proposal lay, however, in the voting structure which gave two-thirds of the votes to developing countries. OPEC countries argued that the division of such votes among the developing nations (OPEC and non-OPEC) was an internal matter for them to decide. Indeed, they maintained throughout that they constituted an integral part of the Group of 77, and that the proposed distinc-

tion between two categories within that group would be accepted only for the purpose of facilitating the establishment of this institution, without creating any precedent for treating OPEC as a distinct category among developing countries. Representatives of OPEC countries concurred that IFAD should not build up a large bureaucracy, but did not want to see it acting simply as a paying agent for pre-existing institutions. Other developing countries expressed divergent views on the scope of activities of the new Fund, the type of beneficiaries it could assist, and the terms and conditions of its loans, but were in agreement that their financial participation should remain optional and that the Fund should have its own full-fledged bureaucracy. In my judgement, the debate would have reached no fruitful conclusions, but for the following important factors :

(*a*) OPEC countries, having by then established the OPEC Fund, declared, in May 1976, their readiness to contribute through that Fund \$ 400 million to the initial resources of IFAD, provided that developed countries would contribute \$ 600 million for the same purpose. By making this substantial pledge, and by giving the OPEC Fund the responsibility to negotiate the details on their behalf, OPEC countries provided the required credibility which was so far lacking in the demands of developing countries. They also provided a mechanism whereby a business-like approach could prevail. In response, the OECD countries began to concentrate on bargaining on the amounts to be contributed by each category, and on the potential scope of IFAD's activities, taking its establishment, for the first time, as a foregone conclusion.

(*b*) The position of OPEC countries regarding IFAD was co-ordinated by a single spokesman, a task which this writer undertook as Director-General of the OPEC Fund. This fact that they spoke with one voice in the negotiations, coupled with the previously announced financial pledge, ensured a greater weight for OPEC's views, both within the Group of 77 and *vis-a-vis* the OECD countries. In the context of the Group of 77, representatives of OPEC countries, acting through their spokesman, held

the view that negotiations on delicate details could not be conducted *en masse,* and that the Group had to choose three to six persons to discuss these issues with a small number from the OECD countries. They also proposed that representatives of the Group of 77 in this small forum should have a flexible mandate, and should not unrealistically assume that the package to be reached ought to meet the demands of each country in the Group, as such an assumption would necessarily preclude agreement.

(*c*) When a compromise was finally reached in the context of the small 'contact group', whereby the principle of parity in the contributions of OECD and OPEC was set aside (in the end OPEC countries put $ 435.5 m, OECD countries $ 557 m, and other countries some $ 30 m) while keeping the proposed voting structure intact, and whereby the new Fund was to entrust, as a general rule but not in all cases, appraisal of projects to other international development agencies and to rely on such agencies for the administration of its loans, along with a host of other details, the difficult task of getting this negotiated deal accepted by the whole Group of 77 began. A few members of the Group questioned some aspects of the compromise and the issue arose as to whether unanimous acceptance was required. Ardent speakers, who seemed more interested in restating doctrinaire attitudes (presumably, to please other audiences at home) than in the creation of the Fund, spoke fervently against any compromise. The writer, who was the spokesman for developing countries in the 'contact group', argued that a package satisfying the requirements of every single member of the Group of 77 could not have been devised. Awaiting such an unreachable package would have meant postponing the establishment of IFAD *ad infinitum.* The issue was, therefore, whether to establish the institution within the framework that could be accepted by the bulk of its potential donors and recipients after comprehensive and exhausting discussions, or not to have it all. Faced with such a difficult choice, the Group had to decide

> whether to continue acting in that context on the basis of the principle of unanimity (which presumably had been its general practice), or to accept more effective procedures. The lengthy debate on this issue ended in agreement that consensus requiied only the approval of an overwhelming majority and that the negotiated package received such approval. This principle was subsequently followed in the drafting committee of the Agreement Establishing IFAD (chaired by this writer), and in the 18-member 'Preparatory Committee' established after the signature of the agreement to work out the detailed guidelines and regulations while the procedures required for the Agreement's entry into force were being taken by the Parties to it.[2]

To sum up, the IFAD experience clearly demonstrated the importance for the South, in the context of negotiations on such an intricate matter as the establishment of a new multilateral development institution, of having : (*a*) a technical secretariat to articulate proposals; (*b*) a small forum to negotiate details; (*c*) credible attitudes on the part of these who ask for a change in the *status quo*; and (*d*) readiness of the group to depart, when necessary, from the prinicple of unanimity as a basis of decision-making.

The Common Fund

The need for 'an overall integrated programme for commodities of export interest to developing countries' was expressed in the resolutions of the UN General Assembly's Sixth Special Session (1974). Since that date the adoption of such a programme, along with its main proposed element (a common fund for financing buffer stocks and related measures), figured in practically all the agendas of negotiations on world economic reforms which took place throughout the rest of the decade. Repeated in the declarations of successive meetings of the Group of 77, the establishment of the projected common fund in particular became almost an article of faith for the South. The UNCTAD Secretariat provided the required 'doctrine' through its documents for UNCTAD IV in Nairobi

(1976), where a resolution was adopted for the negotiation of a common fund under an Integrated Programme for Commodities'. Meanwhile, the 'non-aligned countries' were working independently on the drafting of an agreement for the 'creation of a special fund for financing buffer stocks' to be established and financed exclusively by them. When the Non-Aligned Summit Conference of 1976 discussed that issue, it found comfort, however, in deciding to delay consideration of the proposal 'pending the outcome of negotiations on the UNCTAD common fund.'

Based only on the agreement in principle reached in Nairobi, in 1976 (no further agreement was reached in the successive preparatory meetings which followed), a UN plenipotentiary negotiating conference was held in the following year under UNCTAD's auspices to negotiate and finalise the draft agreement establishing the Common Fund. Despite the rhetorical support for the principle, and the ambitious ideas initially expressed in the UNCTAD Secretariat's documents (which envisaged the fund as a $6 billion multi-commodity stocking agency that would intervene directly in commodity markets), it was obvious from the outset that the differences between the Group of 77 and the OECD countries were too wide to allow the Conference to reach agreement. A modified version submitted by the Secretariat envisaged a fund with initial resources of $3 billion of which $1 billion would represent the share capital and $2 billion would be mobilised through borrowing. A tripartite structure similar to that of IFAD was mentioned. As an illustration, reference was made to a contribution of 37.5 per cent of the capital by each of the importing and exporting countries of the commodities involved, leaving 25 per cent of capital to be subscribed by OPEC members.

The OPEC countries, as an expression of solidarity with other developing nations, declared their full support for the Common Fund concept and requested, in early 1977, the Director-General of the OPEC Fund to act as co-ordinator among their delegations to the negotiating conference. When the writer attended the conference in this capacity he was merely an 'observer' rather than a direct participant as was the case in IFAD. Nevertheless, he suggested to the UNCTAD Secretariat and the Secretariat agreed, that its proposals should

be first scrutinised from a technical point of view by an expert group composed mainly of bankers in order to ascertain the most suitable financial structure required, especially in view of the projected reliance of the Common Fund on financial markets. After an informal meeting (chaired by this writer, and involving IMF experts, private bankers, and UNCTAD staff) was held in Washington, D.C., two bankers' meeting were held in Geneva which greatly helped the Secretariat in reformulating its proposals and in preparing more realistic supporting documents.

As the UN conference resumed its work, the different groups were gradually able to crystallise their positions. Developing countries wanted the proposed fund to be a central source of finance endowed with its own share capital and with the power to borrow, in the magnitudes proposed by the Secretariat. The objectives of such a fund were to include the financing of international commodity stocks, as well as other measures for perishable and other commodities, whose problems could not be easily solved by stocking but which experience persistent price fluctuations. Financing for such other measures was to include grants and soft loans to the poorest members. The Group of 77 further wanted this fund to finance national stocks co-ordinated through an international commodity arrangement or organisation (ICO), and to facilitate the establishment of new ICOs of special interest to the developing countries. The OECD countries, on the other hand, which were slow to produce specific proposals, suggested a fund based on a system of mutual assistance among existing ICOs through a pool arrangement, without creating a new international institution. Credits extended through such an arrangement were to be made to participating commodity organisations on a commercial basis and for the sole purpose of financing buffer stocks. Each organisation would deposit in the pool 75 per cent of the resources required to stabilise prices of the commodity concerned within the limits negotiated by the producer and consumer governments members of that organization. Against that, it would have a guaranteed drawing right of upto 100 per cent of its maximum financial requirements. In the end, the fund would, in this version, have been a mutual co-operative among the participating ICOs, while governments were to

contribute only to the ICOs of which they were members. Deposits of ICOs in financial surpluses would then finance credits to ICOs which made stock purchases. If drawings on the fund were to exceed total deposits, additional resources could be obtained by borrowing from the market against warrants on commodity stocks held by the ICOs and by loans from the international financial institutions. OECD countries further proposed that measures other than buffer stocking should be kept outside this arrangements as they felt they should be handled by existing facilities, such as the IMF and the World Bank. These countries were prepared, however, to consider a role for the fund in respect of the ICOs which provide internationally co-ordinated nationally-held stocks.

The difference in group positions continued and the attempts of the chairman of the conference in late 1978 to narrow the range of such differences through specific proposals failed. It was interesting to note, however, that there were wide differences among the OECD countries themselves in respect of the proposed fund, with the Netherlands and the Scandinavian countries coming close to the position of the Group of 77. Conducting the negotiations always as confrontation among categories helped, therefore, to polarise attitudes and delayed compromise. Countries on both sides which could have acted otherwise probably felt committed to the 'Group position', which quite often reflected a more rigid attitude than that which a large number of countries would have been prepared to accept.

The co-ordinated role of OPEC countries in these negotiations was expressed in particular in three successive statements which this writer was mandated to make before the UN conference. In March 1977, at the initial stage of deliberations, a clear position was announced in support of the concept 'as a mechanism for bringing about a fundamental improvement in the pattern and terms of trade of primary commodities.' Tribute was paid, however, to the importance of seeing this mechanism as mutually beneficial to both producers and consumers 'in what, if it is to succeed fully, must be a universal and global endeavour.' Thus, while indicating that the UNCTAD Secretariat proposals provided 'a sound basis for negotiation,' serious alternatives were invited and were

promised careful consideration 'in a constructive and business like manner'. OPEC member countries, which then accounted for less than 3.5 per cent of the trade shares in the 18 relevant commodities, were not, however, to be treated as a distinct category in this context. The common fund was not envisaged as a mechanism for the transfer of resources from OPEC to other developing countries. OPEC countries would, therefore, participate 'in the same manner as other developing countries do,' but were ready, in addition, to consider 'special arrangements to ease the burden (of participation) on the poorest countries', and to study the possibility of eventually extending loans to the fund 'as a sound investment of liquid assets.' While maintaining this low-key posture, the statement added a point which was then unpopular among some representatives of the Group of 77 but which, as this writer was later told by several leading delegates, had a considerable impact on enabling the conference to reach agreement in the end. It may, therefore, be worth quoting in full :

> As the Common Fund is presently envisaged to act as a central lender to various international commodity organisations, its financial needs will depend, in the first instance, on the availability of commodity organisations with the power to borrow from an international agency. At present only two such organisations exist. Others may be created as time passes. If one is to look to the matter in a practical way, the Fund's financial resources should obviously be related to its operational needs, starting at a level commensurate with the requirements of the existing commodity organisations, while allowing for future increases as new potential borrowers from the Fund come into existence. If I am to insert a personal note in this context, experience tells me that the practical and modest approach to solving problems yields a greater measure of acceptability, especially if it is flexible enough to adapt itself to new situations as they come out. It is also useful to realise in drawing the final agreement that it is neither possible nor advisable to try from the outset to find a specific answer to every minute detail. The objective could well be realised by reaching, in due course, a basic agreement on the general rules which

would allow the Fund to be established and to handle problems as they arise.[3]

The second intervention of the OPEC Fund came in November 1978, at a time when protracted negotiations showed no sign of real progress. The emphasis then was to try to accelerate the pace of negotiation by providing concrete elements of support. A short statement was made which clearly indicated that all OPEC members intended to participate in the Common Fund and to contribute to its resources 'according to the criteria to be agreed upon in the conference.' In addition, the OPEC Fund was prepared 'to consider providing financial support to the Least Developed Countries in order to enable them, if they so wish, to meet part of their contribution to a Common Fund acceptable to the international community, including in particular the developing countries.' Finally the OPEC Fund would, in due coures, provide additional support to finance measures other than stockpiling to the benefit of the poorer countries through a 'second window' of the proposed fund.

The third intervention came a year later, in October 1979, when the elements of agreement had started to emerge and specific pledges had to be made to provide the required credibility, and to alleviate fears regarding the financial ability of an institution whose callable capital consisted, to a substantial extent, of contributions of developing countries. The points made at this stage were as follows :

(*a*) OPEC countries would participate as original members. Apart from the equal share expected from each member, they were willing to cover, if need be, up to one-third of the variable portion of the mandatory contributions to be assigned to developing countries. [The Group of 77 later decided on a general formula for the distribution of this portion among them, based on the UN Scale of Assessment (two-thirds) and GNP (one-third) without assigning any pre-established share for OPEC countries.]

(*b*) The OPEC Fund was ready to pay the equal portion of the mandatory contributions of all the Least Developed

Countries (LLDCs) acting as their agent *vis-a-vis* the Common Fund. (Later on, the OPEC Fund decided to provide *grants* for 35 countries, including the 31 LLDCs, to meet all their contributions to the Common Fund's direct capital).

(*c*) The OPEC Fund was prepared to make a voluntary contribution to the second window of the Common Fund (for financing measures other than stockpiling) in an amount which would make its total assistance for Common Fund purposes in the order of $100 million.

The statement emphasised again the conviction that 'a well-conceived and well-managed common fund will be in the joint interest of the developed and developing countries alike.' The objectives of this last intervention were put in no ambiguous terms :

> In making this announcement at this stage, the OPEC Fund aims, in particular, at accelerating the process of the negotiation of the agreement establishing the Common Fund by opening the door for the membership of a large number of countries, with a ready and soild source of finance backing them. It aims further at strengthening the financial position of the Common Fund in the capital market by meeting the largest part of the contributions of its financially least able members. Finally, it hopes to set an example for the other countries in a position to do so, to follow suit, both in announcing their voluntary contributions to the second window and in making available additional amounts to enable the Most Seriously Affected Countries, which are not among the Least Developed, to meet their mandatory contributions to the Common Fund. The OPEC Fund is indeed prepared to make its commitments to the Least Developed Countries part of a larger pool, the contributors to which would include other donors and the beneficiaries of which would, accordingly, be a larger number of developing countries.[4]

The coordinated approach followed by the OPEC countries in the negotiations on the establishment of the Common Fund

was one of the several important factors which finally led to agreement on a final text in 1950.[5] The decision of the UNCTAD Secretariat to deal with the issue as a business matter of banking and finance, though belated, was also an important factor. The process could perhaps have been shorter, however: (*a*) if rhetoric had been reduced to a minimum; (*b*) if original demands were formulated more realistically, after consultation from the outset with the banking community ; (*c*) if group positions on each detail were avoided ; (*d*) if specialists were participating (most delegates consisted of diplomats, members of the permanent missions to the UN in Geneva) ; and (*e*) if greater emphasis has been placed on the mutual benefits which were likely to accrue to both sides from improving the terms of trade of developing countries. In hindsight, it is also believed that a more successful outcome would have been achieved, if the concentration of the UNCTAD Secretariat and the South's delegates on the creation of the Common Fund was less distracting from the equally, if not more, important task of creating the ICOs required for a Common Fund to function properly.

Substantive Prerequisites of a Successful Dialogue

Without underestimating the central importance of the often missing political will of the developed countries to accept significant changes in the *status quo*,[6] other conditions are also required from the developing countries and may themselves facilitate the emergence of such a will where it is lacking. The examples cited above were meant to point out the relevance for the countries of the South of adopting workable approaches. and of following effective procedures in their negotiations with their Northern counterparts. Our attempt to emphasise the importance of such procedural prerequisites should not, however, undermine the equally, if not more, important substantive requirements. Both form and substance are at any rate quite interrelated in this complex process.

Resolute Domestic Action

As I have elaborated elsewhere on a number of occasions,[7] the South's demands for a new international economic order

will be void of moral justification, and therefore, of credibility, in the absence of new *domestic* economic orders which better reflect its policymakers' concern for development issues within a framework of a just distribution of gains in their societies. The prevalent patterns of consumption in many developing countries, especially among the ruling elites who invariably set the example for others, cannot be readily reconciled with the frequently heard revolutionary demands for international (meaning external) reforms. The scarce resources of many developing countries are far from being properly managed at a time when the proper allocation and management of resources seems to be the most decisive factor in the development process.

The assumption that the North has built its prosperity on the exploitation of the South and should, therefore, pay for the latter's 'right to development' is, regardless of any judgement on its historical accuracy, simply inadequate to provide a sound basis for a productive dialogue. Without unduly exaggerating their strength, developing countries should not assume that their salvation is dependent on the actions to be taken by the North. By making such an assumption, they would in fact be depriving themselves of their legitimate right and obligation to develop. They will be subordinating their economic future to the goodwill of others, who do not always have the interest or the means to deliver. Instead, developing countries are best advised to realise that development must start at home, as has always been the case. Their basic demand should, therefore, centre around the creation of an international environment in which serious development efforts on their part are not hindered by formidable external factors such as those prevailing at present. This formulation of the South's demands combines the quest for changes in the international order with a prior acceptance by the South's decision-makers of new resolute domestic policies, with all the sacrifices they would necessarily entail.

The required changes in the domestic policies of developing countries are most clearly manifested in two areas which remain generally unaffected despite all the ongoing debates on possible reforms. Surprisingly, these two areas have, for various but unacceptable reasons, been excluded from most discussion on economic changes. The present dimension of

these two areas make it possible, however, to ignore them in any serious discussion of the subject. These are the questions of unprecedented population growth and massive increase in armament expenditures.

Population : The demographic dimension represents to date one of the most threatening aspects of the future, and, in several cases, of present economic life in most developing countries. Yet, it is an area where serious action is either lacking or falls far short of producing significant results. Recent studies indicate that developing countries, China included, which accounted in 1980 for 3.3 bn out of the world's population of 4.4 bn (*i.e.*, 75 per cent) will account in the year 2000 for some 4.8 bn out of a total population of some 6 bn (*i.e.*, 80 per cent.[8] The crude birth-rate and the gross reproduction-rate in the South are more than double those of the North,[9] while the former lacks the physical and institutional means to meet the requirements of such a fast-growing population. In large parts of the developing world, food production is not growing or is growing at a lower rate than that of the growth of population, which inevitably results in a decline in per capita food production.[10] The resulting constraints have immediate effects on the balance of payments of many food importing developing countries, and almost inevitably lead to several distortions in other sectors. In particular, education and employment policies are badly affected, with overall negative implications on the development prospects of the countries concerned. It is striking that a problem of this dimension is still taken lightly in most densely populated countries in deference to local considerations which are all but ignored by the same decisionmakers when it comes to issues of lesser importance to the future generations of these countries.

Armaments : The other area of concern is the spending on armaments in developing countries. Much has been said about the wasteful and menacing arms expenditures in the world which, as the Brandt Commission lucidly explained, dwarfs any spending on development while making mankind poorer not safer.[11] It is also generally realised that savings in arms spending in the North could represent the most promising prospect for massive increases in official development assistance to the South.[12] Yet, instead of providing examples

of restraint in this area, developing countries have been spending a greater proportion of their GDPs on the armed forces than the developed countries, with the added burden that most of their arms expenditures take the form of payment in hard currencies for imported weapons. Worse still, the rate of growth in military expenditures in recent years has been higher in the South than in the North. In 1981, Third World countries, excluding China, were reported to have spent $ 83 billion on arms, almost double the amount spent in 1971.[13] In most cases, this great growth in spending on armaments was not in response to greater defence needs as much as to the intensive marketing campaigns of the arms exporters, coupled with the importers' illusion that greater quantities of arms may bring greater security and stability. The fact remains that the Third World as a whole spends on weapons much more than it spends on education and health combined.[14] In several cases the expenditure on arms is more than double the spending on economic development, which results in lower growth rates and almost always in greater chances of armed conflict.

It may not be realistic, however, to expect any single developing country to reduce arms spending unilaterally while its neighbours continue the arms race. This is indeed an area where national action must follow collective arrangements, at least on the sub-regional level. Taking such action assumes a mutual conviction among neighbouring countries in the peaceful settlement of disputes. This conviction which seemed strong in the post-World War II years, has been increasingly weakened as military aggression went unpunished in a number of cases. Developing countries must realise, however, that excessive spending on arms cannot provide a solution for their problems. If there are winners in this race, they are likely to be those who export arms to them. Developing countries should, therefore, practise greater restraint in the face of attempts of outside powers to manipulate political differences among them in order to promote their own short-term interests at the expense of the parties to the disputes. It is distressing to see some developing countries facing such manipulation at times with complete predisposition.

Inter-South Co-operation

In addition to the action each developing country is called upon to take within its borders, a vast realm is open for joint action by these countries in the fields of economic and technical co-operation. Several conferences have already been held on this matter, most notably in Buenos Aires (1979), Caracas (1980) and New Delhi (1981), and several UN agencies have already established new bureaucracies to handle the subject. Actual co-operation remains modest, however, outside the impressive area of financial assistance provided by OPEC member countries. Most of the new initiatives proposed at present have also assumed in one or another a pattern of 'co-operation' where a few surplus OPEC countries continue to subsidise the others. This simplistic approach cannot lead to practical conclusions, especially as most OPEC countries are experiencing increasing financial difficulties. More balanced patterns of co-operation resulting in mutual benefits are needed now more than ever. The following areas could be of particular promise in this respect although they are by no means exhaustive :

Direct Investments : The transfer of resources among developing countries for the creation of new real investments is still limited. In many cases it is effected through outside intermediaries. A number of bilateral and multilateral investment corporations have been established, mainly between Arab/OPEC sources and other developing countries. National investment companies in the Gulf area are slowly increasing their activities in developing countries. The Islamic Development Bank has given clear preference in its activities to equity participation, and the Kuwait Fund has been authorised to go into direct investments in addition to its lending activities. More recently, the Arab countries' members of the Gulf Co-operation Council have set up a joint investment authority which is expected to concentrate on external investments. These are all welcome developments. They should gradually open the door for an increase in the real wealth of the South, converting the paper claims held with Western banks into new productive investments. They should also result in large-scale commercially viable enterprises capable of benefiting from fairer co-operation with the transnational corporations of the North. But this trend

should be encouraged to grow faster. The potential host countries should take conscious measures to improve investment climates in their territories, and to accelerate international efforts for the establishment of the multilateral investment guarantee scheme presently being considered by the World Bank. The relatively industrialised developing countries in particular should take a leading role in this trend as they stand to gain most from it. They should provide funds as well as managerial and technical skills to allow for the formation of new investment companies and joint ventures which will eventually result in increased demand for their goods and services. It is a great mistake to think of this field as one where the initiative may be taken only by the surplus Arab/OPEC countries, or to consider it a continuation of the aid phenomenon, which is lopsided by definition. Investment opportunities abound in the Third World and a number of them require joint action. All developing countries are, in principle, qualified to participate in such action once they perceive it as a business endeavour where each participant should have a fair return. In fact, joint investment corporations established by developing countries, including the countries in which they operate, are likely to have a much greater sense of security than other typical foreign investors.

Consider the case of India. This a country which indeed has a very low per capita income. But, it is also one of the few major industrial powers and is rich in managerial skills and technology. It also has huge financial assets, low per capita income notwithstanding. India certainly has the capacity to sponsor the formation of joint ventures in many fields where concerns of other developing countries may join for investment on a commercial basis in and outside India. As I had the occasion to explain to Indian officials years ago, the volume of funds that can be generated in this way will exceed by far the amounts India may be able to receive on concessional terms from other (*i.e.*, OPEC) developing countries. It is gratifying to see this trend starting to bear fruit.

Trade : The exports of developing countries witnessed in the 1970s an unprecedented expansion in volume and value. Most of this expansion centered, however, on two areas : exports to the DAC countries of the OECD, which moved from a low

\$ 47.7 bn in 1970 to \$ 424 bn in 1980 (or from \$ 31.8 bn to \$ 171.3 bn if we exclude fuel)[15] and trade between the OPEC and non-OPEC developing countries which increased on average by some 40 per cent a year since 1974.[16] Outside these areas, the increase in trade transactions among developing countries has not been impressive. Agreements reached on trade liberalisation in several sub-regions have also faced serious obstacles in most cases in the form of non-tariff barriers, exceptions and the like. Here again the scope of new initiatives is wide open. A serious implementation of the already existing agreements on economic unity, economic integration, customs unions and trade liberalisation would itself result in significant changes. Experience shows, however, an obvious gap between written agreements and reality. In some regions countries bound by agreements of this type do not even maintain diplomatic relations at present. The relatively industrialised developing countries can again take a lead in this area by advocating systems of preferences among developing countries in favour of the poorer among them. Such arrangements would put these countries in a better position when they ask for similar preferences from the developed countries.

The OPEC Fund is at present, through its Procurement Guidelines, granting certain preferences, upon the request of the borrowing country, to procurement under its loans for goods and services produced in developing countries. The Arab Fund has similar arrangements for procurement from Arab countries ; IFAD has the developing countries' preference clause in its constituent agreement and Procurement Guidelines. It remains to be seen, however, whether such policies will lead to practical changes. The assumption here is that the borrowing country will be authorised to procure from a source in another developing country, even if this source is more expensive upto a certain limit (7½ per cent in the case of the OPEC Fund). Would the borrowing countries be prepared to make such sacrifices for the sake of greater inter-South trade and co-operation? And what are the semi-industrialised developing countries prepared to do in return?

Another preference clause introduced in the Procurement Guidelines of the OPEC Fund stands a greater chance of application. This is the clause whereby competitive bidding in the

procurement of goods and services may be limited to a certain developing country or countries if they agree to co-finance the project involved on concessional terms acceptable to the Fund. Both the Fund and the Borrower should in this case be satisfied with the technical ability of the firms among which competition will be limited. This clause has already been applied in the implementation of a coal survey project in Mozambique which Brazil accepted to co-finance with the Fund. It also found application in the implementation of the OPEC Fund's grant to the World Food Programme (WFP) designed to finance food imports from developing countries which agree to sell foodstuffs to the WFP at concessional terms. Argentina, Burma and Zimbabwe have already co-operated in the implementation of this scheme.[17]

Technical Co-operation : An oil exploration project financed by the OPEC Fund is being implemented in Tanzania at present. The drilling contractor is Sonatrach of Algeria and the reviewing consultants are the intergovernmental Arab Engineering Company.[18] This is a rare example of technical co-operation in an exclusively inter-South context maintained through the conscious efforts of the OPEC Fund. Another example is the Mozambique coal project referred to above where the technical work is being carried out by Brazilian concerns. The governments of developing countries should look for similar areas of co-operation where the experience of consultants and contractors or other developing countries may be of greater relevance to their needs. It would be counterproductive, however, if this is taken to mean discrimination among consultants on account of their nationalities regardless of their technical capacities. It only means that where a country is likely to benefit more from the relevant expertise of another developing country, it should make an effort towards securing that expertise. That is becoming increasingly relevant as some developing countries have successfully developed technologies which can be readily used in the similar conditions of other developing regions. The contribution China can make in this particular field should be of great relevance.

Labour : The magnitude of the movements of labour among developing countries in recent years, especially between certain Asian and Middle Eastern countries and the Arab countries of

the Gulf is indeed impressive.[19] Liberal estimates speak already of the volume of annual workers' remittances from six Arab countries only in two digit figures of billions of US dollars. This important phenomenon remains, however, largely unregulated. The financial benefits accruing from it to the workers' home countries are made at a high social cost to both the home and the host countries, as a recent study commissioned by the OPEC Fund has proven.[20] It is time, therefore, that the countries concerned take the required steps to maximise the benefits and minimise the harm for both sides as well as for the workers themselves.

Conclusion

Throughout this Chapter I have concentrated on what the South ought to be doing in a relationship which can succeed only if the two sides actively co-operate. This is not to suggest that the contribution the South is called upon to make in this process is necessarily more important than the action required from the North. This emphasis is only the result of my conviction that the South cannot aspire to a successful dialogue if its countries look only for concessions from the North while introducing no changes in their attitudes. In a world faced with increasing strains on the economies of both the North and South, developing countries must prove their credibility through their own serious action. To assume that their salvation must be brought about by the North is to impart to the latter an ability which is obviously beyond its present means. It also deprives the South of its legitimate right, and duty, to develop itself. What is required in the first instance is the serious resolve of the South to improve its own lot and the action that must follow this resolve. The North should be called upon to cooperate in the creation of an international environment in which developing countries which adopt such serious policies can readily achieve the positive results of their efforts without being hindered by insurmountable external factors.

The present world recession has demonstrated beyond doubt that the pace of growth in the South depends to a great extent on the degree of the North's prosperity. The immediate task facing both at present is to put the world economic recovery

into motion. In doing so, they are well advised not to lose sight of the real causes of the present situation which resulted mainly from actions the North took, or failed to take in time, and was only exacerbated by certain attitudes in the South. The development of the South has become progressively relevant to the prosperity of the North. The international division of labour, international trade and financing systems must, therefore, be gradually adapted to these new realities or risk plunging into further disorders to the detriment of all.

Further acrimony and confrontation between North and South are likely to result in greater losses to both. What we should now pursue are the mutual gains that accrue from a world recovery based on the development of the South and the revival of the North. It does not matter much if such a process is called a new world economic order, or simply a progressive integration of the South into a system of global interdependence to which the present order, or lack of order, will be well adopted.

References

1. I.F.I. Shihata, 'The OPEC Fund and the North-South Dialogue,' *Third World Quarterly* (1) 4 October 1979, republished as Chapter 6 in I.F.I. Shihata, *The Other Face of OPEC*, London, Longman, 1982.
2. It is interesting to note that the same principle of 'consensus' as then construed still prevails in the practice of the Executive Board of IFAD, in spite of the voting system provided for in the constituent agreement.
3. UNCTAD document TD/IPC/CF/CONF/8, paragraph 28.
4. UNCTAD document TD/ICP/CF/CONF/20, paragraph 69-74.
5. The Agreement Establishing the Common Fund envisages a new institution which will finance, through its first window, stocking activities for the beneficiary ICOs, and, through its second window, other measures of commodity development. Its 'directly contributed capital' (dcc) will consist of $470m (in case its membership include 150 countries, as optimistically envisaged). Each member will pay an equal share of $1m. The remaining $320m will be contributed as follows : 10 per cent by the Group of 77, 68 per cent by OECD countries, 17 per cent by socialist countries, and 5 per cent by China. At least $70m of the dcc is expected to be allocated to the second window in addition to $280m voluntary contributions. Member countries of beneficiary ICOs are also expected to issue guarantees

to the Fund in the form of callable guarantee capital, to be called upon in the case of default by the respective ICO *vis-a-vis* the Fund. In addition, each ICO associated with the Fund will deposit one-third of its maximum financial requirements (mfr) with the Fund, will assign all its stock warrants to the Fund, and will use it as its only banker for its buffer stock operations. In time of need, each ICO will be entitled to withdraw from the Fund its deposit and the remainder of its mfr. The ICO and its members, through their callable guarantee capital, will be responsible for repaying the Fund. In addition, the Fund will have the power to borrow from the market, and from international financial institutions on the strength of its own capital, the callable guarantee capital of the members of associated ICOs and the stock warrants assigned to the Fund by those ICOs. 47 per cent of the voting power will be assigned for developing countries, 42 per cent for OECD countries, 8 per cent for socialist countries and 3 per cent for China. See Agreement Establishing the Common Fund for Commodities, UNCTAD, TD/IPC/CF/CONF/24. (29 July 1980).

6. The 'lack of political will' should not be over-emphasised either. As Emile Van Lennep, the Secretary-General of OECD, stated in a recent address 'there is at the highest political level (in the North) a clear recognition that in what has become a highly interdependent world economy there is a strong common interest in maintaining and accelerating economic progress in developing countries' OECD, Press/A (82) 51 at p. 1 (25 October 1982). The problem for the North seems to lie more in finding ways whereby such progress could be achieved in the South without adversely affecting the North, a typical dilemma in a 'rich-poor relationship'.
7. See, for example, *The Other Face of OPEC*, pp. 20-39 ; 94.
8. UNFPA, *World Population Wall Chart*, 1982.
9. For the period 1980-85, the crude birth rate for the developed countries (North America, Europe, USSR, Australia and New Zealand) has been estimated at 15.8 per cent per thousand compared to 31.4 in the case of developing countries. So, in spite of a crude death rate of 9.6 per thousand for the former, compared wi.h 11 for the latter, and a life expectation of 72.5 years compared with 57 years, the gross reproduction rate is estimated in this period as 0.98 per cent for the North against 2.04 for the South. UNFPA, *op. cit.*
10. This is particularly true in Africa. For details see the World Bank, *World Development Report 1982*, p. 42 ; The World Bank, *Accelerated Development in Sub-Saharan Africa—An Agenda for Action (1981)* According to these sources agricultural output per capita in Africa grew at 0.2 per cent a year during the 1960s but then fell by 1.4 per cent a year in the 1970s. According to FAO, however, 'the annual rate of decrease in average per capita food production during the 1960s (0.7 per cent) actually worsened during the 1970s (1.6 per cent)

FAO/OAU, *Famine in Africa : situation, cause, prevention, control* (1982).

11. The Independent Commission on Development Issues, *North-South, An Agenda for Survival*, p. 117 (1980).
12. According to the Brandt Commission, *op. cit.*, p. 118, 'the cost of a ten-year programme to provide for essential food and health needs in developing countries is less than half of one year's military spending.'
13. See, Stockholm International Peace Research Institute, *World Armament and Disarmament Year Book 1981.*
14. See generally, R.L. Sivard, *World Military and Social Expenditures* (1981). *South* (London) July 1982 has a detailed account of this phenomenon.
15. OECD *Trade Statistics*, 1982, DAC (82) 20, Table IV-I.
16. GATT, *Report on Prospects for International Trade*, 1979.
17. For details see the *Annual Reports* of the OPEC Fund for International Development 1981 and 1982.
18. For details see the OPEC Fund for International Development, *Annual Report*, 1982.
19. See World Bank, *Report on Labour Migration and Manpower in the Middle East and North Africa*, 1981.
20. See Centre for Arab Unity and Studies, *Manpower Movement among Arab Countries : problems, effects and policies*, (in Arabic), 1982.

PART F

CRISIS OF CAPITALISM AND THE PERIPHERY

19

The Crisis of Capitalism and the Periphery

RAUL PREBISCH

Leaving aside my personal involvement, I think the idea of these lectures is a most useful and timely one under present circumstances, because we need some illumination ; our path remains obscure, especially with recent happenings in the field of international economic policy and in our national development. The idea is both useful and timely because we are facing not only the crisis of capitalism but also the crisis of ideologies, the serious crisis of those conventional theories which do not permit a correct interpretation of the realities of present events or a clear picture of what our course should be.

In my opinion the conventional theories exhibit the great defect of having disregarded and continuing to disregard, systematically, the social structure and its constant modifications. They cannot, therefore, serve towards an understanding of the crucial phenomena of the present. In my opinion this crisis of capitalism is a structural one—a serious structural crisis more complex and difficult than what I experienced as a young economist in the 1930s. That was cyclical, a difficult crisis but it was overcome. The present crisis on the other hand derives from the inherent logic of the system, through the structure

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within which the latter operates. The most disturbing feature of this crisis is the structural imbalance between the rate of consumption and the rate of accumulation of reproductive capital.

I emphasize the word "reproductive" because it denotes the kind of capital which increases employment and productivity, and because there are many other, harmful forms of accumulation.

I shall try to explain very briefly why I believe the crisis to be a structural one. In my opinion the reason is that income distribution and capital accumulation are largely the result of the shifting play of social power relationships created by changes which continually occur in the social structure as technology advances. The upper classes have the obvious ability, owing to their structural position, to appropriate the benefits of ever-growing productivity based on technological progress. These benefits enable them not only to accumulate capital but also to develop, in some cases quite madly, a privileged consumer society at the expense of capital accumulation. Many of you will be surprised that I say this with reference to the main dynamic centre of capitalism : the United States of America. The reason is that we thought the problems of accumulation had been solved there, but they have not. Just the opposite has happened, and I shall try to explain why.

We have seen on the one hand the upper classes with their capacity for retaining the benefits of technological progress ; on the other lies a phenomenon which has emerged and developed more and more, especially since the Second World War : the trade union and political power of the labour force, a power which enables the workers to claim an increasing share of the benefits of technological progress from those who appropriate them by way of economic surplus, as well as to enjoy that share to a growing degree and adopt the forms of consumption of the upper classes. I say trade union power and political power. Political power leads labour to make use of the State machinery and to look more and more to the State for greater social advantages. Finally there is bureaucratic and military power, which as we all know has swollen abnormally. As a result, the privileged consumption of the upper classes is being inflated by the private and social consumption of the various

categories of workers and the civil consumption and military consumption of the State.

The fundamental point to realize is that as these various forms of consumption grow with changes in the social structure, the growth does not take place at the expense of upper class consumption but is superimposed on it, so that as time goes by, as the system evolves by virtue of its internal logic, a time comes when the rate of growth of the various categories of superimposed consumption tends to overtake the rate of accumulation of capital, and especially of reproductive capital ; as I said earlier, this is the kind which raises employment and productivity and is, therefore, of vital importance to any system. Every economic and social system needs a continuous increase in capital accumulation. Here is what I think is happening in the big capitalist countries, above all the United States of America. The phenomenon which worries that country so much is the decline in productivity. This may be due to a number of factors, but in my view the most important one is the structural imbalance I mentioned. The system contains no regulating mechanism to ensure a proper balance between consumption and accumulation. Market forces are not capable of controlling consumption and accumulation. They have a great virtue in other respects. I do not disagree with those who believe that market forces are very important. But their importance is limited. They cannot solve the fundamental problems of the economy in a structural evolution which has reached the stage I have just described.

And not only is the rate of capital accumulation affected ; capital exists in forms which do not increase productivity, beginning with capital invested in military consumption. This capital may be effective in other ways but it has no beneficial impact on productivity. What is more, the ceaseless proliferation of goods and services which technological progress has brought with it, this diversification, also means the accumulation of forms of capital which may serve to attract the consumer, excite his sense of social prestige and so on, but which do not increase productivity. This is another aspect of the crisis which is evident in all societies and even in the less developed ones of our own countries. It helps to accentuate the dynamic imbalance between the rate of consumption and the rate of accumulation.

Also it is all too obvious that part of the big increase in productivity in the post-war period which stimulated these various forms of consumption was to some extent specious. It was an increase in productivity achieved through irresponsible exploitation of non-renewable natural resources; oil is an obvious example. In order to remedy this situation, which is crucial for mankind, a greater investment of capital is needed per unit of energy and therefore, per unit of output. We must also consider the capital which will be required to counteract the degradation of the environment that results from the ambivalent effects of production technology. Thus there is a set of situations, created by the internal logic of the system, which have brought about the crisis.

Do not misunderstand me : when I talk of the crisis of capitalism in the centres I am not saying that it is any way symptomatic of the decadence of capitalism. It is not. Without any doubt the period of history in which capitalism showed a really huge constructive impulse, based, of course, on the ambivalent nature of technology, was in the many years after the Second World War, from the post-war period to the first half of the 1970s. What I think happened is that from the sheer energy, capitalism burst its banks, outstripped itself, there being nothing in the system, in the spontaneous functioning of the system, to prevent this. There is nothing which is capable of bringing this dynamic impulse under control again. It is not that the problem cannot be overcome ; however, it will be overcome not through the play of market forces—of what has been called, to use the fashionable expression of recent years, the magic of the market—but by conscious and deliberate State action along democratic lines to create a new macro-economic regime of capital accumulation and income distribution which will prevent the excesses, attended by such serious consequences, that we are now witnessing.

We still do not like to convince ourselves that these consequences really are serious and we continue to believe that there are easy remedies, that it is a question of accepting some sort of compromise, that the system should make some sacrifice in order to recover its equilibrium. I am referring to monetarist policies. How do these monetarist policies seek to eliminate the imbalance? How do they try to adjust the rate of consumption

to the accumulation needs of the system in order to correct the various evils I have mentioned? There are two forms of monetarism. One kind of monetarist policy is to try to correct excessive consumption by restricting it. And how is consumption restricted? By a policy of credit restriction which shrinks economic activity and produces unemployment. This is a very crude procedure, but it is what underlies one type of monetarist policy. It means creating unemployment to such an extent that labour finds its trade union power crippled and accepts a lowering of wages to the extent needed to revive dynamics of the economic surplus and hence of capital accumulation and privileged consumption by the upper classes.

Do not think that the social implications of this are as straightforward and obvious as I have made them appear. Yet that is the background of the monetarism employed both in the centres and on the periphery, especially the Latin American periphery. And it derives a certain theoretical support from the conventional theories, because according to these one of the defects of the system is precisely the trade union and political power of labour ; therefore, that power must be overcome, destroyed, to the point of acceptance of wage levels which enable businesses to be competitive.

What these theories overlook, and this exemplifies, let me say it again, the disregard of the social structure, is the fact that—looking at the system historically, from the end of the nineteenth century onwards—its only strength for revival, for the creation of particular skills at various levels of the labour force, for participation in the fruits of technological progress, has been the trade union and political power which opposes the power of the upper classes to tap the fruits of increased productivity in the form of economic surplus. The conventional theories have always maintained that the system, if left to the play of market forces, tends towards the social dispersion of the benefits of technological progress. But this is not the case ; they do not spread through society. They are mainly withheld by the upper classes, which account for most capital accumulation by businesses. Consequently, all that labour can do is to fall back on its trade union and political power, and when this is undermined it may happen that eventually labour gives way because of unemployment. If at some time economy

revives, can the trade union and political power of labour be bypassed once more or will there be another inflationary cycle resulting from the imbalance between consumption and accumulation? That is the big question. In my opinion the problem is insoluble—insoluble from this standpoint.

The other form of monetarist policy is the following: according to orthodox thinking, the growth of the State, of its civil and military consumption, need not lead to a fiscal deficit if there is a strict policy of increasing taxation to the extent that State expenditure cannot be reduced. But here we find that taxation too becomes inflationary when it falls heavily on the shoulders of the workers who, through their trade union and political power, have developed the muscle to compensate themselves for taxes. Thus the increase in the State expenditure is reflected either in a clear and manifest deficit or else in taxes which are offset in this inflationary manner; ultimately the situation turns out the same, although its appearances are different. How can this be overcome? What form what second kind of monetarism is adopted in this case? Naturally the manifest fiscal deficit has to be met, generally in an inflationary manner. This is what has been happening in the United States of America in addition to other forms of social inflation. To finance the deficit by means of credit expansion creates growing inflation, and labour is naturally compensated by higher wages and salaries.

To avoid this outcome, because inflation becomes a worry for all classes of society, a very interesting formula has been invented: that of meeting the deficit neither by taxation nor by inflationary credit expansion measures but by relying on public savings. In other words, by paying for excess State consumption through voluntary limitation of private consumption on the part of persons who buy government securities with their savings. This is why interest rates have risen to the highest levels ever reached in the history of capitalism. But why at the same time does the money created by the banks, the money which flows from the banking system, have to become dearer? Because in order to maintain these high rates of interest on savings, the interest rates on bank money are raised as well, resulting in severe credit restriction. So this kind of credit restriction is applied through high interest rates. Why must the process be

accompanied by an increase in bank rates? In order to ensure that the funds generated by the banking system do not find their way to the financial markets for purchasing securities, in which case the securities would not be paid for out of real public saving but from monetary expansion ; in other words the inflationary effects would be the same. Thus a huge rise in bank interest rates through credit restriction makes sense.

But what is the consequence, what is the cost of lowering inflation in this way through public savings? First, dearer borrowing for business. Second, credit restriction deprives business of the money they need to increase their working capital, their operation capital. It is absolutely necessary and proper to expand credit in order to provide businesses with working capital which is eventually translated into an increase in output. But credit restriction and higher interest rates hurt business and create a slump and unemployment, so that the social cost of this monetary policy is the same as that of the other monetary policy. Whether credit restriction is employed directly or to facilitate higher interest rates and attract savings, the consequences are exactly the same. In other words, inflation is reduced but at the cost of squeezing economic activity and producing unemployment, which naturally leads to a downward pressure on wage levels, and that is what we are witnessing in the United States of America.

If this were a cure, if it were not a temporary expedient to be discarded when economic activity recovers, serious thought would have to be given to accepting a temporary social sacrifice in order to stimulate the economy. But this is not the case. It is not a cure. Because when the economy does pick up, the phenomenon of wage and salary adjustment will recur; it is labour's way of participating, this being very difficult for them, if not impossible, through the mere play of economic market forces.

That to my mind is the significance of the two versions of monetarism, and the consequences are not confined to the country in which this policy is being followed, the main centre of capitalism—the United States of America—but produce disturbances throughtout the world. The increasing anxieties of European countries, not to speak of the Latin American countries and the other developing nations, are plain ; high interest

rates are shrinking world economic activity and creating acute and growing unemployment with obvious social consequences, and potentially with very serious political consequences for the entire world. This is the result of a policy, the result of not looking realities in the face and of not seeking new formulas to supersede the traditional ones, which might have worked at a time, when there was no trade union and political power or when it was very weak, but which cannot be applied now. Today we face a real situation basically brought about by the evolution in the structure of society.

Understandably, in the light of these events my mind reverts to dramatic episodes of the great world depression of the 1930s which I experienced as a young economist serving my country's Government, and trying to find a way at least to mitigate the consequences of the serious happenings of that period. Just as the epicentre of today's crisis is in the United States of America, so the epicentre of the great depression was in the United States too.

We economists, guided by what was being said in the centres, believed that it was a severe cycle but that "recovery"—that was the language used—was just round the corner. But it was not round the corner because banking restriction caused near panic. There was fierce credit restriction. Unemployment reached huge figures, and that was not all. The United States—and this is very difficult to explain theoretically—decided to fight the depression by raising customs duties sharply against the rest of the world. These two phenomena, the shrinking of the economy and the raising of protection barriers, led to the collapse of the multilateral trade and payments system which had been working so well everywhere. The world was hurled into bilateralism ; in other words, every country apart from the United States sought to meet the adverse effects of the depression, the loss of its exports, by import restrictions. But in order not to spread these measures the other countries limited their application to the United States. That is the significance of bilateralism. Despite everything these countries kept afloat through a bilateralism imposed by what was happening at the epicentre of the crisis. Then came the war, the Second World War, and many years passed before the multilateral trade and payments system could be re-established. The consequences of

that policy, which I believe was wrong and I do not hesitate to say so, were prolonged and far-reaching for the entire world.

So I had to begin my working life as an economist in a major world slump and now, quite late in life, I am witnessing another crisis of capitalism. What has happened in between? The developed countries have had a long period of prosperity, of extraordinary growth rates such as never occurred before in the history of capitalism. And undoubtedly the developing countries were able to take advantage of these extraordinary growth rates in the centres and begin industrial exports, some of them with considerable success. This was beneficial but accompained by very adverse consequences.

First of all, and I shall refer in particular to Latin America, we allowed ourselves to be mesmerized by the prosperity of the centres. Because of this prosperity, this hypnosis, we gave up a policy which was producing results, namely import substitution, not confined narrowly to individual countries but extended where possible to interregional trade. We went to the other extreme. Before, there had been economists who maintained, mistakenly, that out-and-out import substitution was the solution to development problems. It had to be combined with the export of manufactures. But the pendulum swung the other way with the great prosperity of the centres. We abandoned import substitution, and reciprocal trade arrangements among Latin American countries weakened considerably, because we thought that the world was beginning a new era in which exports of manufactures to the centres were going to clear the big foreign trade bottlenecks which had affected the countries in question. Quite naturally, we allowed ourselves to be seduced by the effects of the prosperity of the centres. We went to the other extreme : no import substitution, no reciprocal trade arrangements, our whole future lay in external growth, in exploiting the markets of the centres.

What is more, the great prosperity of the centres spread quickly and in many cases uncontrollably, to the Latin American periphery. We tried more and more to imitate the advanced forms of consumption of the centres owing to great disparities in income distribution. There is no doubt that transnational enterprises played a major part in this imitation process. But the heart to the matter was the poor income distribution which

characterizes Latin America and developing countries elsewhere. This is what enabled the upper classes to assimilate rapidly the forms of consumption of the centres, to the detriment of the accumulation of reproductive capital ; that is the only thing capable of solving our problems of social segregation, this situation where huge sections of the population are left way behind at the bottom of the system, with low incomes, very low productivity and in many cases no job because insufficient reproductive capital has been accumulated to create more employment and raise productivity among the mass of the people.

Something fundamental to economic development has been missed because of the wastage of capital accumulation potential, caused by more and more resources being frittered away on the privileged forms of consumption which have taken root in the Latin American periphery. Of course, there is the high population growth rate as well. During these years of prosperity we Latin Americans, on average, achieved high rates of economic growth too, but in absolute terms the masses remained as they were; no progress has been made in solving the grave social and human problems. Thus, by looking to the exterior, we abandoned what in my opinion was a policy that should have been continued, despite all its considerable and undeniable defects and shortcomings, and that should have been refined in the light of experience. This is from the external point of view; internally we have largely squandered the potential for accumulating the necessary capital which would have met the dynamic requirements of the system.

Those years of the great slump saw the beginning in Latin America of a movement of intellectual emancipation which consisted of taking a critical look at the theories of the centres, not in an attitude of intellectual arrogance—these theories have great merits—but in the realization that they deserved critical study. I must say that the United Nations played a big part in this critical inquiry which led us to seek our own path towards development instead of copying others; to ponder the realities of the situation and try to meet the economic, social and moral requirements of development—the path of equity. Despite huge obstacles we were making progress, but when those great years of prosperity arrived and we allowed overselves to be blinded by

the centres, the search for our own path was broken off. Not only that, but in much of Latin America there was a resurgence of the neoclassical theories which had guided our development before the great world depression, in the hegemonic interests of the centres and of the hegemonic groups in the periphery but without regard for the great mass of the population, which industrialization barely touched. This was the model we tried to follow and gradually modify in the light of experience.

Despite all their benefits, however, those years of prosperity not only threw us off our course and led us to abandom or relax our efforts to find our own path of peripheral development, but left us at the mercy of the neoclassical ideas which had proved totally inadequate to promote industrialization in Latin America. A number of Latin American countries experienced the excesses of so-called economic liberalism, which is only viable when political liberalism is suppressed. That is to say, two forms of liberalism stemming from the same philosophical ground ended up many years ago by parting company. In some countries the establishment of economic liberalism created the need, or rather was the consequence, of strong-arm governments which broke the trade union and political power of the labour force and believed that market forces would solve their main problems. We were intoxicated by the conventional theories. I think that those countries which adopted them with such enthusiasm are now realizing their disastrous consequences. Yet the northern hemisphere, and above all the most advanced country in the northern hemisphere, continues to propound certain conventional theories which are incompatible with the acceleration and social orientation of development.

Its hope is that market forces, the so-called laws of the market, will solve our fundamental developmental problems. I want to say this : I recognize that market forces have great importance, but they do not solve the basic problems for us. Have they solved our problems of irresponsible exploitation of natural resources, the environment, income distribution and capital accumulation ? The market is something of great value and must be preserved, because the alternative is that basic decision-making about the system takes place from above—by those at the top of the pyramid—and this is incompatible with

broader democratization and with political and personal freedoms. But it is a great mistake to conclude from this that market forces alone will solve all the problems. The market has no such magic. These forces must be combined with State intervention, which need not extend to the routine details of the economy, simply to the intelligent handling of the mainsprings of the system. In other words, we must be guided by rationality. The conventional theories inspired the belief that there was some rationality within the economy. What rationality, seeing the various evils that we face at the moment ? It is a rationality that in the final analysis serves internal and external dominant interests ? There is a rationality here, but not from the collective point of view.

We have been waiting a long time for the play of market forces, according to the leading theoreticians, to solve our problems of development and income distribution. The belief was that market forces would spread the benefits of technological progress. I maintain that this is not. I maintain that a new rationality must be sought, but not one based on hegemonic interests; rather, one based not merely on economic and social objectives but on eminently ethical ones. That is what must be restored to the economy. A return to political economy and not simply to brute economics, so as to progress by hard effort, through persuasion and explanation, to action. Of course, were we to take a look at our present experiences in perspective, we could not be optimistic. I believe that the struggle should continue, that it concerns not only the international community but our own countries. It is not a question simply of a new international economic order but of new internal ethical and social economic order. These are the great problems which we have to solve in Latin America through hard sacrifice.

20

Global Nature, Origins and Strategic Implications of the World Economic Crisis : An Eastern European View

TAMAS SZENTES

The present crisis in the international economy can by no means be attributed to certain "extraordinary" or temporary factors nor merely to the "normal" business cycles of the developed market economies. It is a structural and institutional crisis of the world economy as a whole, *i.e.*, a one-world crisis which is deeply rooted in certain fundamental contradictions and inequalities of the contemporary world system and has been caused by the imbalanced pattern of the international division of labour, a spontaneous redeployment process, the increasing disturbances in the national systems of the State regulation of the economy, the rise and demonstration effects of a squandering "consumer society" and the internationalized arms race and militarization.

Because of the global and complex nature of the crisis the conventional crisis theories applied to national economies and the corresponding policies are bound to fail and the programme of the new international economic order with its inconsistencies.

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and the usual United Nations procedures tending to "departmentalize" the interrelated issues are also inadequate.

As a conclusion of the analysis of the crisis presented in this article, the author urges the application of a holistic, global approach imbued with a real "world-consciousness" and giving priority to collective interests, and points to the strategic issues of establishing a genuinely new, demilitarized and democratic world order, such as the requirements of social and national emancipation, democratization of the international as well as the national systems, the elimination of asymmetrical relationships of dependence, ownership and control, a profound restructuring of the international division of labour, a reorientation of the production and consumption patterns towards real human needs, the institutionalized participation of workers in economic decision-making and control both at the national and at the international level, and the gradual development of global planning, regulation and control activities in a democratized United Nations system.

Which is the "Sick Man" of the World Economy?

When the United Nations Conference on Trade and Development was first convened in 1964, the only "sick man" of the world economy seemed to be the third world, particularly those economically less or least developed and politically more or less newly independent countries which faced the troubles of deteriorating terms of trade, increasing import needs and export difficulties, cumulative indebtedness and shortage of financial resources, demographic and nutrition problems, mass poverty and illiteracy.

However, different or even diametrically opposed, were the views on how to cure the "sick man" at that time, which varied according to the political stance or the theoretical and ideological background or the personal interests of the authors, politicians and practising economists who recommeded or applied the "recipes", there was no doubt, a certain degree of definiteness and self-confidence in the answers offered to the problems on the agenda then. Without going into details or taking account of all the variants, it seems sufficient to refer to the three main versions of the recommended development

and assistance policies stemming from different theoretical bases :[1]

(*a*) The "conventional recipe" corresponded perfectly to the classical and neo-classical dogmas of Western (non-Marxist) economics concerning "comparative advantages" in specialization and the harmonious operation of an international economy based upon spontaneous market forces, free flows of commodities, money and factors of production, and unrestricted activity of private capital, and to the (Rostowian) concept of a linear growth process following natural stages, including those corresponding to the contemporary state of affairs in the third world.[2] This recipe prescribed the elimination of all the obstacles to the market mechanisms, such as State intervention, and suggested to the developing countries an "open door" policy with a hospitable investment climate for foreign companies that offer access to capital and technology, a further expansion of the existing production of export goods and currency devaluations in order to reduce trade deficits, and the imitation of the advanced capitalist societies through modernization in order to "catch up" with them as soon as possible. Those advocating this recipe completely neglected the historical conditions and the external causes of the lopsided development of the dependent periphery of the world economy and ignored, in general, the relations of dominance in international trade and finance. Much of the advice given by foreign experts and reports of international missions, such as those of the World Bank, IMF and others, at that time reflected this conception fairly well. A consistent application of this recipe has further aggravated the "sickness" in most of the countries concerned, since the measures prescribed tend to reinforce its basic causes.

(*b*) The moderate "reformist recipe" originated from the new school of development economics, often called the "structuralist" or "Latin American dependencia" school. By pointing to the structural imbalance and

progressive disequilibria attributable to the operation of spontaneous market forces, and to the inequalities in exchange relations and in the distribution of benefits from international trade between developed industrial countries and the dependent, less-developed primary producing countries, those proposing this recipe called for a reform of international trade and some regulation of the market forces as well as for redistributive measures, financial assistance and non-reciprocal trade preferences in favour of the less developed countries.

Most of the recommendations of the 1964 Conference and also of the Declaration and, particularly, the Programme of Action on the Establishment of a New International Economic Order,[3] as well as the related multilateral negotiations since then, bear the marks of this recipe. The necessity of the measures prescribed by it can hardly be doubted, in so far as they relate to the consequences of the "sickness" and can be used as "palliatives". However, without substantial changes in the fundamental social relations and structure of production in the world capitalist economy, a reform of international trade and finance will surely touch only the "symptoms" of the "sickness" and will not reconcile the conflicting interests of the parties concerned.

(*c*) The "radical recipe", which appeared in various theoretical writings, including many dogmatic "Marxist" works, as well as those of ultra-leftist or romantic revolutionarists, and also in the policies of some radical nationalists, suggested a total breakaway from the world capitalist economy, an economic as well as technological disengagement from the advanced capitalist countries, a full nationalization of all foreign assets, an autarkistic self-reliance or an integration with a socialist world economy, non-co-operation with international capital, and the choice of a "non-capitalist" path of development. The proponents of this recipe recommended a policy of either imitating the example, or "model", of socialist countries of Eastern Europe, or of building in isolation an ideal communistic system,

> perhaps on the basis of the ancient "aboriginal" traditional society. By over-simplifying the assessment of the nature and role of colonial dominance and vulgarizing the theory of imperialism, they concentrated so much on the purely external pathogens of the "sickness" that its internal manifestations, components and lasting consequences[4] were practically neglected, as were also the very conditions under which the recipe might be applied, if at all.

As a matter of fact, in the last two decades all the three "recipes" have failed in practice, though for different reasons.

The spontaneous market forces and free mobility of capital have worked against the less developed countries and weaker economies. The "open door" policy has reinforced financial, commercial and technological dependence in most cases. Besides aggravating the foreign dependence of the economy, it has also resulted in the widening of the domestic income gap, in the marginalization of the rural population and in increased urban unemployment in most of the countries concerned. The concomitant socio-political tensions often led to *coups d'etat* to a militarization of the regime and its resort to foreign military assistance.[5]

The reforms of international trade, monetary and financial relations have not made noticeable progress, despite the claim for and a widely accepted programme of establishing a new international economic order. The international redistribution of incomes by means of aid has proved to be ineffectual in halting the income drain and losses suffered by the majority of developing countries in international economic relations. The first two United Nations Development Decades have provided convincing evidence that under the existing international conditions of an extremely asymmetrical structure of ownership and control of resources, capital, science and technology, and of inequality in the allocation of roles in the international division of labour, a mere increase in financial assistance and transfers is in fact accompanied by a further growth of resource outflows from the recipient countries.

As regards the policy of disengagement and radical nationalism, all autarkic attempts have clearly failed, and none

of the countries applying such a policy has become self-reliant in the full sense of the term. A sudden disruption of the economic relations with the former metropolitan country or the Western world, the radical nationalization campaigns and frontal attacks on all foreign investors have caused—as a rule—serious difficulties, if not a crisis, in the countries concerned, and, besides the political reorientation, often provoked or reacted to retaliatory measures by foreign Powers. The economic performance of many of the socialist-oriented countries of the third world has been rather poor, partly or mainly because of such retorsions or the increased defence expenditures and militarization motivated by the threat of possible retorsion, and also because of the structural difficulties inherent in forging new international economic relations with alternative partners, not to mention the price these countries had to pay for the positive efforts to change the inherited structures and former mechanisms.

The imitation of "models" has also failed—whichever country served as a model—as did the romantic attempts to rebuild a traditional society in the modern world.

Though the above "recipes" are not yet withdrawn from circulation, and even though their failure does not mean that they should all be regarded alike irrespective of the difference between the clearly apologetic and progressive considerations underlying them, they are hardly applied exclusively and consistently now in any single case, and their proponents are now no longer so sure of their full validity.

It has become obvious that the "sickness" of the third world cannot be cured either by conventional methods or by minor reforms and "palliatives", and that a local redicalism in a single country cannot easily ignore the limits imposed by structural endowments and the international environment. This "sickness" has increasingly called for a global therapy.

In 1964 both the "first" and the "second" worlds were still considered as economically sound, stable and more or less well-functioning parts of the world economy, whatever critique was made of the internal socio-political system and/or the international role of one or the other by the opposite ideologies, and even if a fatal economic or political crisis of the opposite

system was forecast, on merely ideological grounds, from time to time on both sides.

The Second World War was followed by a relatively long boom period in the advanced capitalist economies, and a rapid expansion and also structural changes of international trade. Though the United States economy suffered a few minor recessions, the developed capitalist countries, the so-called "market economies", did not experience any serious crisis until the early 1970s—thanks to various, partly specific, partly temporary factors and conditions. These included the reconstruction of war-damaged economies, the effect of deferred demand for consumer goods in the former war economies, the technological and scientific revolution (inducing massive investment waves and shifts in production and consumption structures), the start of economic integration in Western Europe, the opening of formerly closed imperial markets to rival capital and accelerated internationalization of capital investments, the forging ahead of transnational corporations (many of them based in the United States), the unfolding redeployment process with high profit expectations, the expansion of public expenditures and guarantee markets, the rise and illusions of a "consumer society", the inflated credit system, the application of anti-cyclical government policies and the temporary de-synchronization of the business cycles of the individual countries. These conditions and factors, though some of them also contained the seeds of the coming crisis, concealed for a while the inherent contradictions of the economic system in question.

The so-called "centrally planned economies" of the socialist countries were rather isolated from the rest of the world in the period from the late 1940s to the mid-1960s, during and because of the "cold war". Their rate of growth far exceeded the average rate of economic growth of the advanced capitalist countries as well as that of the third world. This high rate of growth seemed to remain a more or less permanent feature of these economies even in the late 1960s and early 1970s, when, as a result of detente, East-West economic relations began to be normalized and the trade relations between the "East" and the "South" expanded rapidly.

Though certain temporary difficulties and a slowing-down

were expected to follow from a change-over from the "extensive stage" of economic development to its "intensive stage" in the socialist countries, the very need for such a change-over was mostly explained simply by the exhaustion of the manpower resources required for extensive development, *i.e.*, independently of the reintegration of these countries into the world economy and its consequences, while the temporary difficulties were supposed to be easily overcome by a further intensification of co-operation in the context of the Council for Mutual Economic Assistance (CMEA). (This explanation, it may be mentioned incidentally, was consistent with the concept of a perfectly autonomous and linear process of socialism-building, with its well-distinguishable "stages", independently of the world capitalist economy which was supposed to represent only an "external environment" of secondary importance). Even after the obvious eruption of the crisis in the Western economies and international markets, it was still assumed for years, at least by many of the leading economists in the socialist countries, that the crisis and its consequences, often attributed merely to a deterioration of the terms of trade, would not or would only slightly affect the socialist economies and that these economies would be able to maintain their high rate of growth, internal stability and equilibrium.

The eruption in 1973-1974 of the international economic crisis, despite the warning signs of the preceding decline in the investment waves, an accelerated inflation and the growth of excess capacities in several Western economies visible already in the late 1960s, falsely appeared as the consequence exclusively of the oil price explosion, *i.e.*, of an "artificial disturbance" by the Organization of the Petroleum Exporting Countries (OPEC), of the "normal" mechanism and equilibrium of the Western economies and the international monetary and financial system. And since the first "oil price explosion" was followed, temporarily, by increases in the relative price of some other raw materials as well, this fact induced, or recalled, not only apocalyptic visions about the depletion of the non-renewable natural resources but also the illusions of a more or less general and lasting improvement of the terms of trade for the primary producing countries. Many economists shared the assumption that the third world as a

whole would be able, directly or indirectly to gain from the crisis of the West, and that most of the primary producing developing countries (except the energy-poor and over-populated countries with heavy import needs of oil and food and without sufficient export capacities) would be immune to the harmful effects of this crisis.

Very soon, however, it came to be realized that the crisis in the advanced capitalist economies could by no means be attributed merely to the change in the relative oil prices, and that neither the majority of the developing countries nor the socialist countries could avoid the harmful effects of the crisis.

In the Western economies, despite some slight and temporary recoveries, the crisis has proved to be a lasting phenomenon with all its "traditional" characteristics such as mass unemployment—again—and under-utilized capacities, weak investment propensities and sharpened competition, etc., and also with certain new features such as "stagflation".

Except for the major oil exporters and a few others, the terms of trade of the developing countries have deteriorated further since the mid-1970s (and even the OPEC countries suffered losses in the real or relative value of their export revenues, owing to the international inflation, the changes in the exchange rates, the rapid rise in the prices of their imports, etc.,[6] not to mention the recent oil price decreases). The world market position and also the internal economic conditions of the majority of the developing countries have actually worsened, with the consequence that all those crisis phenomena witnessed already since the late 1950s have been aggravated and become more acute, while the international assistance conditions have also deteriorated.

The socialist part of the world has also experienced, though as a whole on a far smaller scale than the West, the serious consequences of the crisis and unexpected difficulties. Though the average rate of growth of the socialist countries of Eastern Europe remained higher than that of the Western countries in the 1970s, some of these countries (*e.g.*, Poland) entered a very deep economic and also socio-political crisis, while others (*e.g.*, Hungary) managed to keep their economy in relative balance, or to restore an equilibrium that had been disturbed by external

effects, only at the price of a radical slow-down of growth, almost a stagnation (at least in "purely economic" and quantitative terms) and a temporary stop or reduction of real wage increases. As a matter of fact, hardly any of the socialist countries of Eastern Europe have been spared a considerable decrease in growth rate, or a trade deficit, an increased foreign indebtedness or a certain degree of inflation.

Whatever may be the role, and the responsibility, of local factors in the deterioration of economic conditions, in the disturbance of equilibrium or in the slowing-down of growth in the one or other country ; and however, much a business cycle with regular recessions is an inherent feature of the capitalist national economies ; neither the re-synchronization of the latter and the return, despite anti-cyclical policies, of a deep economic crisis with lasting stagnation in the West, nor the development deadlock in the third world and the further deterioration of the economic position of the majority of developing countries, nor those new tensions and difficulties arising in the economies of socialist countries can be properly and fully explained independently and separately from each other *i e.*, out of the context of the world economy as a whole. Owing to the organic interrelations and interactions of the various economies, to progressing internationalization and to increasing interdependence, however asymmetrical,[7] we are facing, indeed, a "one-world" crisis, instead of separable crisis phenomena in "three worlds", though its origins are diverse and its consequences by no means equally distributed.

Why do the "Conventional" Explanations and "Solutions" Fail Now?

It follows from what has been said above that the "usual" theoretical explanations of economic crisis hardly help, and the solutions they suggest are hardly workable within the former frameworks. The local capacities to act and manoeuvre are more limited than even in each of the "three worlds".

Upto now both the Keynesian theory of the business cycle and the Marxian crisis theory have been applied—whether correctly or incorrectly—to national economies, and so were the solutions derived from them.

The Keynesian "medicine" implied a national policy of State intervention in the economic mechanism in order to create additional effective demand either by the redistribution of incomes in favour of the low-income strata with small saving propensity or by an increase in unproductive expenditures through deficit financing. (The income redistribution by progressive taxation and the increased social welfare expenditures from the State budget make up the progressive version of the Keynesian policy, while the growth of the military budget and of the State bureaucracy, increased armaments expenditures and military employment represent a reactionary version, in an extreme form a self-defeating fascist one.)

The applicability of the Keynesian business-cycle theory and anti-cyclical policy in the developing countries has long been doubted by all those familiar with the real conditions in those countries.[8]

In the advanced capitalist countries the national application of the Keynesian "medicine" has proved rather recently but convincingly ineffective enough to provoke a "monetarist counter-revolution." A return, however, to the pre-Keynesian ideas of *laissez-faire* in a neo-liberal government policy is not only anachronistic but also self-contradictory, particularly if it is coupled, as in the case of the United States today, with intensive State intervention in international economic relations and an expansion of the military sector of the economy (which corresponds to the reactionary version of the Keynesian policy). The same remark applies to a return of the "cold war" policy and to the accelerated arms race in general, which (though no doubt tending to add to the economic difficulties in the socialist countries and to reshape the power relations among the allies as well) would not only deepen the global crisis, and narrow the international markets, but also perpetuate economic stagnation along with inflation in the country concerned—not to mention other possible consequences such as the increased risk of a world catastrophe.

The nationalistic reactions to the crisis, such as the new wave of protectionism, the reduction of assistance programmes, the recourse to eeonomic or political pressure against rivals in order to curb their competition, or the irresponsible manipulation of interest rates and credit policies, may shift some

burdens of the crisis from one country to another, but only at the price of a further deterioration of the world economy as a whole. Besides, such a policy provokes a like reaction by the partners and conflicts both with the commitments *vis-a-vis* allies and with international obligations in general, while it may also (as, for example, in the case of the new type of protectionism[9] or of the credit policies that encourage speculative transactions) play into the hands of precisely those actors in the international economy, such as the transnational corporations and banks, whose uncontrolled activities have contributed greatly to international disequilibria and anarchy.

The conventional interpretation of the Marxian theory suggested that the way of escaping from the economic crisis and other anomalies originating in capitalism would be to transform the socio-economic system of the country concerned and to protect the socialized national economy by defensive measures, if necessary by isolating it from the anarchic market of the outside capitalist world.

No doubt, until the mid-1970s the socialist countries were hardly affected, at least not economically, by the crisis or recessions of the capitalist world, and even today State control and national planning as well as the major orientation of trade relations towards CMEA partners make it possible to escape from many negative consequences. A return, however, to isolation and autarky, even if not on an individual but on a collective (CMEA) basis, would conflict not only with the political objectives and endeavours, which are to strengthen detente, to expand peaceful East-West economic co-operation, to develop relations with the third world and to support the popular forces and socialist orientation, but also with the economic interests (which vary, of course, according to the size, production structure, development level and other characteristics of the countries concerned) in participating in the world-wide division of labour and in keeping pace with the international development of science and technology.

Furthermore, an isolationist policy would hardly be workable in view of the existing East-West and East-South relations and of the various effects of the Western world on internal development, such as the demonstration effect of the "consumer society" with its biased pattern of consumption,

not to mention the consequences of a further increase in the military burdens on development resources which would probably follow from the enhanced danger of conflicts with the outside world.

But if the national, or intra-regional, application of the "conventional" methods of escaping from the crisis does not help, would their international or world-wide application offer a solution?

An internationally applied Keynesian "medicine" in its progressive version would imply a massive redistribution of incomes from the rich classes of the world to the poor ones, thereby both increasing the effective demand of the latter for the products of modern economies with excess capacity and narrowing the international income gap. (The report of the Brandt Commission[10] seems to reflect such a conception.) However, quite apart from the question who would conduct and control such a policy in the absence of a world government, and also apart from the fact that income redistribution *per se* (even the most progressive taxation) can never eliminate the primary inequalities in the ways and measures of income earning, some considerable practical problems arise, including those mentioned by A. G. Frank.[11]

First, official development assistance as a whole of such an income redistribution does not carry with it any guarantee that the poorest strata will actually benefit thereform. (In most cases just the opposite.) Though a clear-cut priority accorded in the international assistance policy to the countries with progressive governments which make progress in eliminating social inequalities might be a solution, the international political games, neo-colonial alliance policies and the support given by some "donors" to the most reactionary regimes work rather in the opposite direction.

Second, if a real income redistribution in favour of the poor classes (and not simply in favour of poor countries) of the world did take place, the resulting increase in effective world demand would not necessarily fit the structure of the present excess capacities in the advanced countries for the manufacture of mostly luxury items and sophisticated industrial products.

Third, in so far as the burden of redistribution was not primarily borne by the rich classes, but instead by the workers or consumers in the donor countries, the effective demand for mass consumer goods in the latter would decrease.

Fourth, a sufficient and regular expansion of the third world markets for the products of the West can hardly be achieved by a redistribution of incomes merely by means of increased financial assistance. For the sake of balance and mutuality such an expansion would presuppose a systematic widening of the Western markets for third world products, which is incompatible not only with protectionism but also with the perpetuation of the existing structure of the international division of labour. A mere transfer of some outworn industries and a small shift in the specialization of the developing countries towards some cheap-labour-employing, export-oriented industrial enclaves cannot promise a solution. Apart from the resistance even to such an adjustment policy in the West, and disregarding also the various domestic disadvantages of such a narrow and technologically dependent industrialization, it is to be noted that such a pattern also excludes the proportional growth of mutual markets, and tends to weaken the terms of trade for the technologically dependent countries. (As a matter of fact, even East-West and East-South economic relations are prevented from achieving a more dynamic and healthier development also by structural imbalances. There is still a marked discrepancy, in volume and structure alike, between the production of the socialist countries and their Western trade, which also influences, besides other factors, the East-South trade.)

In other words, the international application of a Keynesian medicine cannot elude the problems of therapy of the very "sickness" of the world economy as a whole, its structural distortions and basic inequalities. The same is true of the Marxist medicine, which has also to bear some relation to the world economy as a whole and not only to some part of it.

As a Marxist the present author would certainly welcome what Immanuel Wallerstein considers[12] as the future alternative to the capitalist world economy, namely the sudden birth of a "socialist world government" which would directly put into force the criteria of community interests and global rationality

in the allocation of resources and equality in income distribution. However, one cannot expect such a world government to materialize in the near future, nor can one expect that all those contradictions, imbalances and asymmetrical relations which are at the root of the present crisis and international inequalities would be resolved immediately and automatically, or even easily. It is the object of the passages which follow to inquire into the origins of the crisis.

Origins and Background of the World Economic Crisis

Over and beyond those particular processes, conditions and circumstances which account for the eruption of the world crisis, it is necessary to explain some basic contradictions of the present world economic system and their implications.[13] Three sets of such contradictions can be distinguished.

1. The first set consists of those very general and fundamental contradiction of capitalism which, having always accompanied the development of capitalist national economies, now *mutatis mutandis* appear also, and more obviously than ever, on a world scale. Examples are :

(*a*) The contradiction between production and consumption, the former being motivated by the search for profits, economic gains and advantages, and the latter being, on the one hand, limited by the unequal distribution of incomes and benefits in the international economy, and biased, on the other, by the dominant centres of business-motivated production and elite-consumption.

This contradiction, together with and under the conditions, of profound inequalities in world social relations, manifests itself in the strange parallelism and paradox of luxurious, conspicuous "over-consumption" in certain, minor segments of world society, without a corresponding improvement in the quality of life, and "under-consumption" in other, major segments, both in the absolute sense (below the subsistence minimum) and in

a relative sense (in terms of effective demand as compared to production capacities).
The contradiction is also reflected in the general distortions of the consumption pattern, with over-valued material and under-valued cultural goods,[14] and in the discrepancy between the degree of internationalization of consumption and that of production.

(*b*) Another general contradiction, now also discernible on a world level, is that between the increasingly collective, "world-social" (international) character of production and the "individual" (national and private) appropriation of its surplus. This contradiction, even if eliminated or mitigated in certain parts of the world within the national societies, has remained characteristic of the world economy predominantly governed by capitalist "rules of the game", and is deeply rooted in the capitalist way of internationalization, *i.e.*, in the process of internationalization-*cum*-monopolization, and in the resulting unequal structures of ownership and control relations and in the unequally structured division of labour.
It manifests itself in what has been called "international exploitation" in a broad sense.

(*c*) A third general contradiction is that between the organization "within the gates", in the micro-units, and anarchy "outside the gates", in the macro-economy, which has become increasingly visible on the world level as a (partly new) contradiction between some well-organized "micro-units" (such as the transnational corporations), centrally regulated or planned national economies (such as the socialist ones) and the anarchy of the world market. The contradiction is closely related to the discrepancy, attributable also to other conditions, between the institutional framework of the regulation of economic processes and their actual scope.

2. The second set includes those contradictions of capitalism which have emerged primarily on the world level and which

since the very birth of the capitalist system have accompanied its world-wide expansion and operation. Examples are :

(*a*) The dialectical contradiction between development and under-development in the context of a world-wide division of labour between a dominant, developed centre and its dependent, underdeveloped periphery, both of which are growing economically, and changing in functions and composition, but perpetuating a development gap and dependence relationship. This contradiction manifests itself and results not only in the structural distortions of the periphery's economy and society but also in the bias of the economic structure of the centre, with certain irrational shifts in its pattern of activities, investments and expenditures, consumption preferences, choices of technology, etc., as well as in the social stratification, which follow from the opportunities to resort to the resources of the periphery and are often called "over-development".

The uneven development of the centre and the periphery of the world capitalist economy, the wide differences in the development potentials of their types of specialization and particularly the regular drain, by the centre's capital, of the periphery's resources (even apart from other factors) tend to exclude or undermine the equilibrium in the world reproduction process, by preventing a proportional growth of these two sectors as mutual markets. The seeds of a reproduction crisis are, therefore, inherent in the very centre-periphery relationship, though they remained latent for as long as empire systems existed, *i.e.*, before multilaterization with world-wide interdependence.

(*b*) Another contradiction of capitalism as a world system, also characterizing it throughout its history and having sharpened in its most recent period, is the dialectical contradiction between national and international (world-economic) integration.

Capitalism has given birth to integrated national economies (a "material" basis for national identity and

State power) in the core areas, while its international expansion and the unequally structured world economy have prevented the peripheral areas from building such economies. Capitalism has also created the first world economic system, increasingly internationalizing the reproduction process, while the concomitant monopolization by the capital of dominant nations prevents a real transnationalization.

This explains the strange coincidence of, and also the conflict between, the advancing process of internationalization and the modern struggle for national emancipation, sovereignty and developing a national economy, as well as, among other circumstances, the "historical paradox" which implies that the post-capitalist system—intended originally to be an international, world-wide community system—had to start its development within a national framework, surrounded by international capitalism and burdened, therefore, by specific difficulties, deviations, contradictions and also the potential conflict between socialist and national interests.

3. The third set of contradictions follows from the beginning of the transformation of the system on the world level, namely from the rise of socialist States and socialism-oriented regimes in certain parts of the world, from the national endeavours of an increasing number of developing countries to escape from their peripheral position in the world economy, and also from the strengthening of anticapitalist or antimonopolist forces in the advanced capitalist countries.

(*a*) The contradiction between capitalist and socialist regimes affects in various ways both the capital-labour relations in the capitalist countries and the centre-periphery relations of the world system. The historical antagonism between capitalism and socialism appears, however, falsely as inter-State (East-West) conflicts which tend to obscure or mitigate domestic conflicts and intra-State relations.

(*b*) The contradiction between the national movements of developing countries and the central powers of the world capitalist system tends to modify the centre periphery relations. This contradiction likewise is perceived falsely either as a "North-South" conflict, a conflict between "rich and poor nations"—a misconception which blurs the real class coflicts in the world system—or as a part only of the East-West conflict, attributed to an "international communist conspiracy."

These contradictions and their interactions exert a destabilizing influence on the world economy, and generate forces for changing the terms and conditions of international economic relations, while injecting specific political dimensions, often with military implications, into the world economic situation and development.

There has developed a certain discrepancy and non-correspondence between the military, political and economic power relations of the world, in the sense of the co-existence of a still highly concentrated economic power and dominance of the "West", along with a more or less bipolar system of the (nuclear or "strategic") military power balance between "East" and the proliferation of international political forces, owing to the appearance of new developing States and strong antisystem movements in the advanced countries.

All these phenomena warn us that the present world economic crisis can by no means be ascribed to "purely economic" conditions.

The eruption of the world economic crisis was actually the culminating consequence of the effects and changes following from the general contradictions described above. Besides some temporary or extraordinary factors and those effects originating in the internal cyclical movements of the "micro" units, the following main factors and conditions may explain the eruption of the crisis:

1. Substantial changes have taken place in the international power structures which have necessarily undermined the foundations and conditions of the earlier "colonial" pattern of the international division of labour, making it possible in the given case and under favourable circumstances to deal a final blow to

these foundations. (Without such shifts in the international power relations the application of the "petroleum weapon" could hardly have been successful).

2. A redeployment process has been taking place (mostly in consequence of the activities of transnational corporations) which has also brought about changes in the functions of the earlier colonial or semicolonial economies and in the former pattern of the international capitalist division of labour. Since this redeployment process has been very uneven, accentuating the differentiation within the third world, and non-regulated and spontaneous, *i.e.*, without adequate readjustment in the advanced countries, and since it has introduced a new unequal structure in the international division of labour, the former sectoral imbalance of the world economy (namely between the primary-producing periphery and the manufactures-exporting centre) has not been eliminated, but rather aggravated (as in the case of the majority of developing countries) or intensified by new sectoral disproportions (inducing sharpening competition between the products of some older Western industries and those of the newly industrializing countries or socialist economies).

3. Increasing disturbances appeared in the system of State intervention in the advanced capitalist national economies because a contradiction has arisen between the national framework of the anticyclical economic policy of State intervention on the one hand, and the accelerated process of the internationalization of production and capital relations, economic integration and the increasing multilateralization of economic relations, on the other.

A discrepancy between the actual scope for regulating the economic processes and the institutional framework of such a regulation surfaced also in other countries, for obvious reasons in the developing countries, but also in the socialist countries where, besides some internal shortcomings, of the former planning and implementation machineries, the anarchic nature and unforeseeable changes and fluctuations of the world market have caused disturbances in the system of regulating the planned economy.

4. A further factor which contributed to the eruption of the world economic crisis was the rise and spread of a "consumer society" in the West since the Second World War, and its

demonstration effects on other parts of the world. This "consumerism" has been accompanied by manipulated deterioration of quality, squandering, ostentation and artificially promoted fashion waves, and was based upon the expanded credit system of the capital-rich Western economies as well as on their cheap energy and raw material imports from the developing countries. The demands of the consumer society have, therefore, not only exerted an increasing pressure on the world's non-renewable natural resources, but have also made the society's own basis very vulnerable to the vagaries of traditional sources and terms of the supply of basic materials as well as to domestic credit conditions.

In addition, the demonstration effects of this "consumer society" have biased the consumption and import patterns of those societies which, for some reason, imitate the Western example of "consumerism", and have contributed to the rise or aggravation of economic imbalance.

5. Last but not least, the "East-West" arms race and the swollen military budgets all over the world, including the third world, have seriously undermined the conditions of economic stability and development. By cumulatively increasing unproductive expenditures and diverting investment funds, science and skill away from human-needs-oriented production and services, this militarization—paradoxically in peace time—of the economy, radiating from the United States where the profit motive and political goals induced it, has inevitably generated ever more severe inflationary pressures.

It follows from the foregoing observations that the causes of the recent crisis and its various symptoms are not only certain extraordinary or perhaps temporary events, and the "normal" business cycles of the advanced Western economies, but also—and perhaps for the first time—a structural and institutional crisis of the world economy as an organic whole, obvious disturbances in the mechanism of the inherited system of the international division of labour and its redeployment process, disturbances of the national system of State regulation of the economy, the crisis of the squandering "consumer society", as well as the increasingly harmful consequences of the international arms race and militarization.

Concluding Remarks on the New International Economic Order and Some Strategic Issues

In the light of what has been said above it is perhaps needless to discuss why the programme of the new international economic order, as it now stands, and the United Nations procedure of global negotiations are rather inapt to settle the world crisis and remove inequalities. Without any intention of under-estimating the historical significance of the decisions of the General Assembly concerning the "new order" and global negotiations and also without going into the details of their critical appraisal,[15] it seems sufficient in this context to refer only to their main shortcomings.

Though the idea of a "new order" has matured further, hardly any progress has been made towards its translation into action. The reason cannot be merely the "lack of political will". Other reasons are the conceptual contradictions and inconsistencies, themselves discernible in the relevant United Nations documents, and the approach to problems at the negotiations.

What one finds in the Declaration and the Programme of Action on the Establishment of a New International Economic Order and in the Charter itself is an eclectic assortment of different principles, requirements, aims and means, often contradicting each other and reflecting opposing theoretical-ideological approaches, including those mentioned earlier in this article.

Besides the conceptual inconsistency there is a certain contradiction or at least a gap between the long-term objectives and the recommended concrete, short-term practical steps. Since the "palliative" measures of redistribution have pride of place in the negotiations as well, while the practical measures for achieving the strategic objectives are mostly neglected, emphasis is placed exactly on that sphere of actions where the conflict of interests in a "zero-sum game" makes it very difficult to achieve progress and where actual distribution of costs and benefits is often dubious.

The most serious shortcoming, however, of both the original "new order" programme and particularly the related negotiations is the very fragmentation, actually a kind of "departmentalization" corresponding to the fields of competence of

the individual United Nations bodies, of the interrelated issues, and the isolation, not merely a technical separation, from each other of the problems of North-South and East-West relations, of the new international economic order and disarmament, etc. Not only is there no holistic or global approach to the consideration of these problems, but their consideration is further hampered by what is called the "forums game".[16]

Though our collective knowledge of the "disease" of our world, its economic, political, social, cultural and institutional "order" may be still very incomplete, nevertheless, what the historical studies and realistic politico-economic analyses have revealed seems to be quite enough to support a call for a radical shift in emphasis, both in programmes and in negotiations, towards the key strategic issues, and for a truly holistic and global approach to these issues.

In view of the enormous danger that the consequences of a lasting world economic crisis may imply, in the circumstances of the international arms race, for the very survival of humankind, it is imperative to realize that the global problems are those affecting the entire world, and to give priority to the collective interests of mankind over individual, national or bloc interests, particularly the prestige-motivated ones. A genuine "world consciousness" has to be nurtured.

Such a one-world approach is predicated on the acceptance of the fact, with all its implications, that different socio-economic systems and political regimes exist side by side in the world today, and of the proposition that their co-operation, despite the opposing aims, interests and means, is just as necessary as the co-operation of all classes within a national society for its survival. The present world economy must be conceived as a mixed economy incorporating different socio-economic sectors, the smooth operation of which requires appropriate spheres of action and adequate "rules of the game" acceptable for each.

Co-operation on the basis of equal rights excludes the forcing of any one party's "rules of the game" on any other and the use of economic or military pressure for political reasons.

It is not sufficient, however, merely to declare equality and sovereignty. Institutional changes and objective conditions are also needed. Institutional changes imply the democratization

of the United Nations system and international organizations—not only to ensure the participation of the government representatives of all nations but also to solve the very problem of representation and participation of all the real political forces and social movements of the world (perhaps in the form of a "second chamber" of the General Assembly for non-governmental representatives).

The objective conditions required for equal and sovereign co-operation and democratic participation are related to the progress in social and national emancipation. Since social and national inequalities are interrelated and interacting, a new international order cannot be achieved without internal changes in the national economies and societies—and not only in those of the developing countries.

National emancipation requires, first of all, national sovereignty in its full sense, including economic sovereignty which is also to be protected by the international community, and the elimination of those unequal relations and asymmetrical dependencies which curb it. A corrrected and more consistent programme of the new international economic order should be designed primarily to promote progress in both respects.

It follows from the foregoing and also from the analysis of the world crisis that much more attention needs to be paid, both in the international co-operation policy, in the programme of the new international economic order and global negotiations and in the national policies of all countries, to such strategic issues of global interest, and their interconnections, as :

(*a*) The reorientation of the production and consumption patterns towards the real human needs, and a radical reduction of socially unfavourable unproductive expenditures, luxury and conspicuous consumption, and military budgets ;

(*b*) The limitation, by these and other appropriate means (such as education and cultural policy), of the negative demonstration effects speading from the advanced countries ;

(*c*) The redistribution of incomes in favour of the working masses, both internationally and within nations ;

(*d*) The massive involvement and democratic participation of the wage-earning and salaried employees in economic (as well as political) decision-making at all levels : at the level of enterprises, of national economies and of the international economy ;

(*e*) The introduction of an effective international, multilateral and democratic regulation and control of the international activity of the transnational corporations, in consonance with the economic rights and duties of States ;

(*f*) The reduction and, as soon as possible, the elimination of the great international asymmetries in the pattern of distribution of foreign capital ownership and control of dynamic sectors of the economy, *i.e.*, of the most direct form of economic dependence of developing countries, by appropriate nationalizations, where necessary, and/or by means of other forms of co-operation with foreign capital, which either exclude foreign ownership and control or terminate it by converting direct investment capital into a kind of loan capital to be repaid from the rising revenues of the established productive enterprise, or imply more symmetrically structured joint ventures established and operated on a really reciprocal basis ;

(*g*) The restructuring, with the help also of mutually planned adjustment policies and long-term inter-State co-operation agreements, of the international division of labour in order to achieve a more symmetrical pattern of allocation of the decisive links of the vertical chain of reproduction (such as the dynamic industries and R and D capacities) among countries, promoting thereby the development of less developed economies and the elimination of technological monopolies, and also to expand and correct the international division of labour by incorporating all the socially valuable non-material (cultural, artistic, educational) activities as organic parts ;

(*h*) The promotion of regional integration as well as co-operation between regional organizations, in consonance

with national integrity and the operation or building up of internally organic national economies ;

(*i*) The gradual introduction of more and more elements of global planning, regulation and control (through a democratization of the United Nations system and of international organizations) of those activities and economic processes which affect the world as a whole or the majority of countries ;

(*j*) The establishment by mutual efforts of a new, global, more reliable and complex world security system of a demilitarized world.

No doubt, the realization of such strategic aims and even gradual progress in elaborating an approprite policy leading towards them depend on a struggle to be waged by all the democratic, progressive, anti-imperialist and anti-militarist forces in the world. An international "popular front" of these forces is badly needed, just as the popular fronts were needed at the time of the "great" crisis of 1929 against the fascist "solutions".

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21

Underdevelopment Through Isolationism? Dependency Theory in Retrospect

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The dependency theory, which in fact never was a "theory" in the true sense of the word,[1] as some of the authors who initiated the dependency debate have emphasised,[2] claims that underdevelopment can be explained better in terms of "exploitation and dependency" than by means of the modernisation approach. The strategy recommendation states that no independent development is possible without severing the economy's links with world markets. It has now become clear that such a form of development can also be achieved by gearing the economy towards foreign trade. In some cases "delinking" may bring economic success,[3] but in many cases it has helped perpetuate underdevelopment. Inquiry into the reasons for the different effects of integration and delinking reveals causal relationships that traditionally fall within the purview of modernisation theory. Re-examination of the central tenets of dependency theory in the light of the practice of developing countries, therefore, leads surprisingly to an upgrading of the modernisation theory approach; it should be noted, moreover, that this theory has not remained unchanged since the fifties but has continued to evolve,[4] partly as a result of the dependency debate.

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The exploitation thesis has a prominent place in the literature on dependency, which asserts that the international exploitation of developing countries can take direct or indirect forms. The open or covert transfer of profits by foreign investors in developing countries, thereby "decapitalising" them, constitutes direct exploitation.[5] Indirect exploitation relates to the deterioration in the terms of trade of developing countries and unequal exchange between developed and underdeveloped economies.[6] The two forms of exploitation frequently overlap in the literature on dependency.

Seen in a superficial way, there is much evidence to support the claim of "direct" exploitation. The annual balance between outflows of foreign exchange as a result of the transfer of profits and inflows in the form of direct investment is negative for many countries, goods imported by the subsidiaries of transnational companies are underinvoiced and exports frequently overinvoiced and developing countries appear to be charged more for the use of new technology than the rates for technology transfer between industrialised countries.[7] However, there now appears to be agreement that these may be *additional* obstacles to independent development but not the root causes of underdevelopment. The emphasis laid on this variant of the exploitation thesis in the early stage of the dependency debate cannot be justified. Moreover, many aspects of the argument do not stand up to critical examination.[8] For example, a deficit between transferred profits and new investment does not necessarily signify "decapitalisation". First, it is not certain whether the profits have been realised in the country concerned or abroad ; in the latter case, which probably applies in particular to exports of raw materials, it is difficult to speak of "decapitalisation" of the domestic economy. Secondly, the assertion does not take account of the other components of value added that remain in the domestic economy. Even if profits are transferred entirely abroad, domestic factor incomes and tax receipts are generated that may not have arisen without foreign investment.

The claim of having explained underdevelopment in terms of "indirect" exploitation must also be qualified. The change in the developing countries' terms of trade was not uniform.[9]

Instead of a long-term falling trend, there appear to be medium-term cycles that affect each country differently. Moreover, the causes of a deterioration in the terms of trade may differ widely, and not every cause can be interpreted automatically as "exploitation". Apart from that, the calculation of reliable statistical data is fraught with problems (choice of a suitable base period, how to treat transport costs, changes in product grades, changes in the composition of the basket of goods, and so forth). Finally, the theory of "unequal exchange" has proved of little use, on both theoretical and empirical grounds.[10]

It is, therefore, hardly surprising that the exploitation thesis faded into the background in the late phase of the dependency debate. Much greater emphasis was laid on "structural dependency,"[11] the assertion that the developing countries' dependence on other countries is rooted in the economic, social and political structures of a country as a result of foreign domination that began in the colonial period and continued after political independence. It is expressed in the foreign-oriented style of consumption of the upper classes, their collaboration with transnational enterprises, the lack of an indigenous capital goods industry, the lack of continuity between domestic sectors of the economy or compartmentalisation of the labour market. Foreign dependence was so to speak "internalised" and therefore, became a characteristic feature of hamstrung economies that have no development impetus of their own but depend on that of the dominant countries.

This structuralist variant of the dependency theory is on firmer ground than many forms of the exploitation argument. It cannot be denied that the colonial domination of areas that we now call "developing countries" caused lasting damage to the economic and social fabric of these countries and created obstacles to development that still persist today. There are many examples of this. Take for example the decline of the textile industry in Indonesia as a result of the importation of textiles imposed by the Dutch. It was not because they were unable to withstand free market competition owing to "comparative cost disadvantages" that domestic producers went out of business; their disappearance was more the result of restrictions imposed on their activities by the colonial power

and the simultaneous granting of privileges to importers.[12] The disastrous effects of Great Britain's colonial policy on craft industries in British colonies are also well known, and one need not delve into the literature on dependency to find mention of them. Even in the last century the North American economist Henry Charles Carey wrote of Great Britain waging "economic war", and supported his claim by reference to official British Government documents : "It is a war to force the populations in all lands to confine themselves to farming, to prevent the multiplication of occupations in other lands, to curb the development of intellectual power."[13]

If the production structure of a country has been distorted for decades or centuries solely to serve the interests of a foreign power, one can hardly expect that "market forces", if left to themselves, will correct the distortion and modify the structure in the direction of the "socio-economic optimum". That would require an extraordinarily high degree of factor mobility. entrepreneurial vision and political stability,[14] attributes that were absent in most of the former colonies. Consequently, where "market forces" were able to operate they tended to consolidate the structural distortions rather than removing them, leading to the situation that the dependency theory describes as "structural dependency".

Internal factors were just as much to blame for these structural distortions as external factors, however. Peru provides a graphic example of this. For several decades after independence the country was almost completely isolated from the world market.[15] That period would have provided an opportunity to lay the foundation of a domestic industrial sector, but the chance was not seized. The country's upper classes showed little understanding for the needs of independent development and lived a life of extravagance more in keeping with mediaeval feudal lords than with capitalist entrepreneurs. The extent of their unscrupulousness and short-sightedness can be judged by the fact that they defrauded the Peruvian Government of part of its revenue from guano exports by falsifying the accounts. In order to secure its revenues, the Government was, therefore, forced to transfer control of such exports to a French trading company.[16] Relinquishing control to *foreigners* was clearly the only way to prevent exploitation

of the State by *nationals*! It may rightly be claimed that this increased the country's dependence on foreigners, but does not the cause lie in the fallings of the country's own elite ? What is the point in making out that their ineptitude was a legacy of the colonial past ? Does that not legitimise their shortcomings, and is that not also the case if the deficiencies of the ruling classes in developing countries today are still explained in terms of the enduring effects of the colonial legacy ? It is certainly no coincidence that the dependency theory enjoys great popularity where mistakes in solving internal problems were particularly blatant.[17]

Research into underdevelopment in the past, therefore, demonstrates that there is a circular relationship between the shortcomings of internal forces and domination by foreign powers. Without being arbitrary, it is impossible to break this "dialectic of underdevelopment" at a particular point and establish causality. But that is what the dependency theory has long tried to do. For many adherents of the theory it was axiomatic that it was the "exogenous penetration of the societies of the Third World" that had modified the "endogenous factors" in these societies so that they "lost their autochthonous character."[18] The circular process was, therefore, resolved into straight causality. "Endogenous factors" able to carry out "independent development" in the true sense have, therefore, ceased to exist. The theory has thus run into a blind alley and at the same time offers a cheap alibi for those who have failed to dismantle the structures of dependence.

It is not surprising that the development policy recommendations of the dependency school were rather insipid, given this long over-emphasis of external factors. Its proponents demanded "delinking",[19] coupled with internal restructuring and co-operation with other developing countries. It was often unclear what individual measures should make up this policy, so that it is difficult to test the soundness of the dependency theory's strategy recommendations in the light of the experiences of individual countries.

In the case of two countries, however, this should not be too difficult. Taiwan and South Korea originally displayed typical features of "structural dependency" and both have followed a strategy of world market integration for many years.

Nevertheless, contrary to the assertions of dependency theory, both countries display clear characteristics of independent development. The dependency theory has, therefore, failed the test on the evidence of South Korea and Taiwan.

Independent Development Through Integration in World Markets?

South Korea and Taiwan were Japanese colonies for decades.[20] The economic structure of both countries was marked by that fact when the Japanese occupation came to an end in 1945. It must be admitted that the influence of the colonial power also had a positive side ; in Taiwan, for example, the Japanese had encouraged the formation of co-operative style organisations in rural areas and established a register of agricultural land. Both actions made the subsequent land reform easier. However, at the time of political independence neither Taiwan nor South Korea had their own heavy industry and both were dependent on imports of capital goods, so that they both displayed typical characteristics of the "structural heterogeneity" of dependent economies. Their structural dependency grew even stronger in the first few years after independence. Advisors, military experts and corporations from the USA played a dominant role in the countries' economic and political development. It is, therefore, hardly surprising that both countries pursued an open door policy towards transnational enterprises and were at pains to maintain a favourable investment climate.

However, this dependence did not prevent South Korea and Taiwan from introducing development policy measures that proponents of development theory always considered necessary and which accord with the concept of self-reliance. One such measure was land reform, which was carried out with active American support. This laid the foundation for the relatively even distribution of income that characterised the two countries in subsequent years. A further measure was the fundamental improvement in the education system, in particular the extension of primary schooling to all sections of the population. The creation of thousands of small family-run agricultural and commercial businesses would have been practically impossible

without this improvement in the level of education. A third measure consisted in the erection of customs barriers to protect infant industries. It cannot be denied that both Taiwan and South Korea initially pursued a policy of import substitution, with the main aim of producing simple consumer goods for the mass market. As elsewhere, this policy reached its limits relatively quickly, but in contrast to other countries Taiwan and South Korea made no attempt to prolong the policy beyond the easy phase, which came to an end in the early sixties. In subsequent years a conscious export strategy was pursued, combined with selective import substitution in certain product groups considered necessary for the development of a diversified industrial sector. The success of this strategy can be gauged by the fact that both countries now export high quality capital goods.

It would be false to claim that this export-oriented strategy did not lead to the development of the domestic market. Specialisation in labour-intensive products in which the two countries *initially* enjoyed comparative cost advantages led to a marked increase in the level of employment, first exhausting the "unlimited supply of labour" (W.A. Lewis) and then permitting substantial real wage increases. For example, between 1960/62 and 1973/75 real wages in South Korea's mining and industrial sectors rose by an average of 5.5 per cent a year.[21] In the sixties around 80 per cent of the growth in country's national product was due to the expansion in domestic demand.[22] Hence, the two countries' remarkable export success should not blind us to the fact that export growth also led to an increase in mass income and to the development of the domestic market ; in the process, income distribution in South Korea became rather less equitable than in the fifties, but it was still more balanced than in most other developing countries.

It would be an oversimplification to ascribe the development success of the two countries directly to the export policy pursued since the mid sixties. A series of internal reforms that had been carried out mainly *before* this strategy was adopted created an auspicious environment. The *existing* foreign dependence was clearly not an obstacle to reform. Combined with the orienta-

tion towards world markets that was adopted at the end of the relatively unproblematic import substitution phase; reforms led to the development of the domestic market, the establishment of an indigenous capital goods industry and increasing integration between agriculture and industry, characteristics typical of independent development as demanded by the dependency school.

Admittedly, South Korea and Taiwan are particularly successful examples of countries pursuing a development strategy open to world markets, but they are not the only countries in this position. One is tempted to ask *whether their experiences are universally applicable*. To answer that question presupposes that a fair number of countries can be classified according to their degree of integration in the world market and that there are meaningful indicators of their success with an independent development strategy. In view of the vagueness of important concepts of the dependency theory and the problems this poses for an empirical examination of its claims, it is impossible to give more than a cautious reply. Some indications are given in the studies by Jagdish Bhagwati[23] and Anne O. Krueger,[24] who find that growth rates and levels of employment are generally higher in open economies than in closed ones. In countries oriented towards the world market the price mechanism is better able to reflect relative scarcities and hence to bring about an efficient allocation of resources than in countries that have been cut off from international competition for a fairly long period. As a result, capital productivity is higher in open economies, so that the population is called upon to make smaller sacrifices in terms of foregone consumption in order to achieve particular growth targets.

To summarise, a development strategy oriented towards world markets does not guarantee independent development ; the key to that lies primarily in measures in the domestic market, including a more even distribution of growth-creating wealth. However, such measures can also be implemented in conditions of "dependency", as the examples of South Korea and Taiwan have shown. If the necessary domestic restructuring is carried out, a country is more likely to achieve the aims of independent development if it integrates into world markets

than if it cuts its industry off from international competition beyond the stage of easy import substitution.

Underdevelopment as a Result of Delinking ?

In the past, many developing countries have adopted a more or less marked inward-looking strategy. In almost no country was it as extreme as in Burma between 1960/62 and 1974/75,[25] when the country's economic, cultural and political relations with the outside world were restricted to the necessary minimum. Economic motives were neither the only nor the prime reason. The policy of self-isolation expressed a deep-rooted rejection of all "Western" influence, a reaction to alienation under British colonial rule and the country's geo-political situation, which UNu, the former Prime Minister, likened to that of "the tender pumpkin between thorny cacti."[26]

The policy of isolation was accompanied by internal restructuring. The first of the measures was agricultural reform giving farmers the right to use state-owned land. A further component of the policy was the sweeping nationalisation programme, which extended to almost all non-agricultural activities. Private enterprise was to be restricted to handicrafts and small businesses. The banking system, foreign trade, wholeasale distribution, part of the retail trade and industrial plant were taken into public ownership. The political leadership clearly hoped that these measures would give it the means of achieving its economic objectives. The establishment of central planning authorities was a third important element in the development policy, although it should be noted that in pratice the planning boards were far removed from the textbook models for a "centrally planned economy."[27]

Burma's economic development up to the mid seventies, when a number of economic policy changes were made and the country began cautiously to open its doors to the outside world, can hardly be called a success. Agricultural production stagnated ; for example, rice production barely rose between 1940/44 and the beginning of the seventies, although the population doubled over that period. The result was a serious decline in rice exports. Whereas in 1940/41 exports had

amounted to 3 million tons, in 1974/75 they were down to only 366,000 tons.[28] As rice is still the country's main export, the decline in the trade surplus led to a shortage of foreign exchange that caused bottlenecks in the procurement of raw materials, semifinished products and spare parts, so that existing industrial plant could not be run at full capacity. Nor was it possible to import capital goods to meet the investment targets. The inadequate increase in output at a time of comparatively rapid population growth caused a deterioration in the supply of goods. The country's strongly egalitarian policy meant that the shortage was evenly distributed, so that no-one had to go hungry, but there was internal unrest in 1974/75, which was not always quelled without bloodshed.

There are many reasons for the unsatisfactory economic performance upto the mid seventies. The first was the backwardness of agriculture, for which the Government's pricing and quota system was largely to blame. Private farmers were obliged to supply the Government with large amounts of produce at relatively low prices, which had a typical disincentive effect on agricultural output.[29] A second reason was the inefficiency of the state sector. There was a high degree of mismanagement, corruption and wastage in the overgrown bureaucracy, which, therefore, became a further obstacle to development. Moreover, the all powerful military rulers quickly grew into a new "state class"[30], with its own privileges and little inclination to allow the people a greater say. Burma's experiences, therefore, tend to confirm the criticism voiced by those who point to the hindrance of independent development by authoritarian state bureaucracies,[31] rather than the somewhat euphoric view of those who consider an authoritarian socialist regime to be essential in the early stages of a country's development.[32]

A third reason for Burma's poor economic performance is to be found in the country's policy of isolation. Keeping the economy open to the world market could reduce the inefficiency of State enterprises and limit the privileges enjoyed by the State class.[33] Burma deliberately chose another path, that of delinking domestic price formation from international competition. This very rapidly led to price distortions and made efficient resource allocation extremely difficult. On top of this

come neglect of the export sector, an aspect typical of a policy of delinking. Many theoreticians of the dependency school appear to assume that income redistribution would greatly reduce import demand, so that sufficient foreign exchange could be released to develop essential industries without making any deliberate export effort. However, in many countries imports of "luxury goods" have long ceased to be so large that a redistribution of income would save substantial amounts of foreign exchange ; moreover, domestic industry's foreign exchange requirement for direct and indirect imports of goods under an egalitarian development strategy is not significantly less than that of a "structurally deformed" industry.[34] Hence, a country seeking independent development rapidly finds itself short of foreign exchange if it does not attempt to diversify and expand its exports. It is not without irony that the very countries that take the road of "self reliance" are frequently the ones to encounter problems of this kind ; Burma was a striking example.

The changes in economic policy in the second half of the seventies have now brought about an upturn in activity. The agricultural pricing and deliveries policy has been eased and the country is beginning to open its doors cautiously to the outside world. It can hardly be claimed that this greater openness has come about because the internal structures had developed to the point at which they could be exposed to international competition. The fact that the change of course was made after unrest due to shortages indicates instead that the policy of self-isolation was no longer economically tenable. If it had not been for the extreme policy of delinking pursued over many years, some of the country's economic problems could probably have been solved earlier. Burma, therefore, stands as an example of a country in which the strict severing of ties with the outside world blocked the process of independent development rather than accelerating it.

The experiences of other countries that have subscribed to a policy of "self reliance", such as Algeria, Tanzania and Sri Lanka, are not very encouraging either.[35] It could be pointed out that these are all countries with small domestic markets in which conditions are unfavourable for such a policy if close co-operation with other developing countries is not possible. It is, therefore, interesting to look at the example of India in this

connection. In all its development plans so far, India has pledged itself to the aim of "economic independence" and its policies have been perfectly consistent with that objective. Typical is the fact that the Mahanalobis planning model, which had an enduring effect on the first five-year plans, contained no explicit modelling of the foreign trade sector. The planners clearly assumed that a policy of autarky was not only possible but also desirable.[36] It was in keeping with this doctrine that for many years imports were subject to restrictive bureaucratic control and that the significance of exports for the growth of the economy as a whole was underestimated. Obviously, it is not possible to trace the country's many economic problems back to a single cause, but there are strong indications that the marked "inward-looking strategy," which clearly did nothing to ease the way for radical internal restructuring, contributed greatly to the inefficiency of the economy and therefore, impeded development.[37]

The observations made so far can be summarised as follows. "Delinking" cannot be regarded as either a necessary or a sufficient condition for independent development. It cannot be said that independent development can be achieved only by severing links with the world market and there is even less justification in claiming that "delinking" always smooths the way to such development. What matters in both cases is clearly the country's own capacity for development, as manifest in such measures as an improvement in the level of education, changes in the social structure, the modernisation of agriculture, the implementation of independent technical developments, the acceleration of domestic capital formation, and so forth. Where development forces of this kind are active, even extreme forms of external dependence cannot prevent independent development. If they are not present, even isolation from the world market offers no solution ; indeed, it exacerbates the existing underdevelopment.

The Explanatory Value of a Critical Modernisation Theory

The development forces in question are factors that have long been the subject of research by advocates of modernisation

theory. Hence, many of the questions raised by dependency theory as to the way out of "structural dependency" cannot be answered without reference to the theory of modernisation.

According to modernisation theory, "development" is a multidimensional process in which psychological, intellectual, demographic, social, economic and political changes are related one to another.[38] In psychological terms, it involves fundamental changes in systems of values, behaviour and expectations. At the intellectual level there is a broadening of knowledge and a change in its content. The demographic aspects include increased mobility of population, urbanisation and increased life expectancy. In social terms, primary groups are supplemented by secondary groups with specific functions. In economic terms it involves capital formation, technical progress, changes in the sectoral structure of production and rising labour productivity, to mention but a few of the relevant aspects. Finally, the political process of modernisation consists in the rationalisation and differentiation of State authority and in increased popular participation in political events. Moreover, "political modernisation involves assertion of the external sovereignty of the nation-state against transnational influences and the internal sovereignty of the national government against local and regional powers."[39]

The last point is particularly important, given the criticism made by the proponents of dependency theory. The nation-state is a decisive factor in the process of modernisation, as it has the task of selecting transnational influences and controlling their assimilation. It can be hindered in this function by dependence caused by past or present factors ; by drawing attention to this fact so forcefully, dependency theory has done the world a lasting service.

Viewed from the modernisation standpoint, the process of economic development is part of a comprehensive social change, which need not follow the Western pattern at all but must lead to changes in society's systems of values and behaviour if the impoverishment of broad sections of the population is to be avoided. Such changes must aim, *inter alia*, at a more rational use of scarce resources and greater efficiency in State administration. To the extent that critieria for such a rational match between objectives and the resources available

have been developed by Western civilisation,[40] a country with continued rapid population growth can withdraw from the influence of this civilisation only at the cost of its own impoverishment.

A critical modernisation theory is more likely to provide pointers to practical development measures than dependency theory was able to do, which was often unable to progress beyond the dichotomy between "delinking" and "integration", at least in Germany. In the real world, development policy does not consist in choosing between extremes of this kind but in seeking intermediate forms that are acceptable to the economy as a whole and suited to the specific conditions of the country in question. The modernisation approach and the traditional foreign trade and development theory have much more to offer in this regard than the proponents of dependency theory would like to admit.

Nevertheless, in the light of a critical modernisation theory, a development policy based on purely economic principles and the belief that the industrial countries' economic programmes and notions of social structures can be transposed unaltered to the developing countries also appears extremely questionable. For example, one glance at the social context of economic development shows that a competitive economic order can be viable only if a number of legal, political and institutional conditions are created.[41] The ordo-liberal school was always aware of this.[42] The question of how these conditions can be created in the cultural setting of a developing country is much more pressing than is realised by those who wish to pursue development policy with Friedmanesque concepts.

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22

Notes on Unequal Exchange Between Developing and Industrialised Countries

DETLEF LORENZ

Conventional economic theory, from Ricardo down to the present day, has certified international division of labour in accordance with the law of comparative advantage to be *efficient.* Critics, predominantly of the Marxist tradition, on the other hand, object that this international division of labour is *unjust* because it is based on the exchange of unequal labour inputs,[1] implying exploitation especially of underdeveloped by developed countries. Hence, we not only have a confrontation between the positive and the normative aspects of the theory of international trade embodying the classical conflict between allocative efficiency and justice of distribution, but as well one of the principal problems of the division of labour between countries with marked differences in levels of development is evoked.

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In the interest of justice of distribution the theorems of unequal exchange are based on a *direct* comparison of *absolute* labour inputs *between* countries. Classical and neo-classical theories of comparative advantage have also been aware since Ricardo that the international division of labour explained by them likewise presupposes the exchange of unequal labour quanta or input units, which could not take place within a country.[2] Re-allocative efficiency, on the other hand, calls for an *indirect* comparison of *relative* labour inputs (prices) between two industries/products *within* the countries concerned.

The argument on the side of the theory of comparative advantage concentrates on proving the *economising* effects in the use of the means of production through specialisation. The larger the cost disparities between the two products within the two countries in the Ricardo model, the larger is the potential of specialisation or the saving in labour inputs, and the more specialisation differs between the two countries the larger are the gains from trade for the country with the greater disparities. Consequently, according to the criterion of comparative advantage it is also entirely possible for the developing country to achieve the larger economy in labour.

The fact that *domestic* specialisation gains are no longer the only determinants of the distribution of foreign trade gains, once the terms of trade are also taken into account, is another matter. However, the above-quoted statements on specialisation gains imply by the very nature of Ricardo's transformation of absolute in favour of relative costs/prices a very significant restriction in the sense that "the absolute levels of economic efficiency or the stages of economic development" are thus ignored.[3] The importance of this restriction will be examined below. For the moment it suffices to establish that, according to the criterion of efficiency, even an unequal exchange of labour inputs does not prevent a country thereby put at a disadvantage from nevertheless achieving specialisation advantage.

Using Ricardo's classical example and the diagram below both quite opposite views can be demonstrated as follows:

The proof of domestic saving of labour inputs emerges only if an *indirect* "*horizontal*" comparison is chosen as in the

theory of comparative advantage. In the case of complete specialisation Portugal closes down the production of cloth, requiring 10 units of labour more per output than wine, in favour of the production and export of wine in order thereby to acquire the cloth more cheaply in an indirect manner, *i.e.* by trade. In England the production of wine, which embodies 20 units of labour more per output than cloth, is replaced in favour of the production of cloth. Apart from the fact that England—the "developing country" in Ricardo's example—achieves the larger specialisation gains, the indirect comparison amounts to a comparison of the pre-trade and the trade situations in both countries. Portugal reduces her input for the production of both goods in autarky from 170 to 160 labour units in the case of production of her specialisation commodity, wine, thereby satisfying the demand of both countries. In England the labour input decreases, as against the autarkic situation, from 220 to 200. The two countries together save 30 labour units (390 minus 360) for the same output in both products in both countries. It should be emphasised once more that Ricardo's example is based on the domestic terms of trade and that it furthermore, as is well known, neglects the international terms of trade by assuming a 1 : 1 ratio.

The unequal exchange theorems, on the other hand are based on the *direct "diagonal"* comparison of the national labour inputs in foreign trade specialisation. Indirect comparison of the respective national inputs for autarkic and for specialised production is replaced by a *direct international* comparison between the unequal labour inputs of Portugal's (80) and England's (100) exports resulting in a loss of 20 for England. The unequal exchange theorems also disregard the international terms of trade, emphasising a direct comparison of labour inputs instead of labour saved. This comparison of labour inputs naturally no longer shows any equivalence of value, such as the Marxist law of value stipulates, but instead a non-equivalence interpreted as exploitation of the less productive/underdeveloped country by the more productive/developed country.

Exploitation Charge Inappropriate

The inappropriateness of the charge of exploitation can indeed be illustrated by two examples from Marxist authors, the one quoted by Mandel erroneously demonstrating an advantage for the industrialised country and the one quoted by Palloix erroneously demonstrating a disadvantage for the developing country.

In Mandel's example 1,200 man-hours (m-h) spent on the exports of a developing country are exchanged against 300 m-h spent on the exports of the industrialised country. To be "just", according to Mandel, the industrialised country should likewise expend 1,200 m-h; in other words it should have delivered an additional 900 m-h worth of goods to ensure an equivalent exchange of labour inputs.[4] But why should it do so when, because of its superior productivity, it would be able, in the case of autarky, to produce its imports from the developing country itself with an input of less than 1,200 m-h (*e.g.*, with 500 m-h, even if not with 300)? Mandel thus construes a *misleading advantage* to the amount of about 900 m-h for the industrialised country. The difference (the advantage) could at best, given import substitution in the industrialised country, amount to 200 m-h. Another point to be taken into account, moreover, would be the import advantage enjoyed by the developing country whose domestic input requirements for the product imported from the industrialised country would certainly exceed 1,200 m-h—an aspect not taken into account by Mandel at all. This aspect is shown very clearly in Palloix's example which in turn construes an *erroneous disadvantage* for the developing country. In his example wheat and watches are produced in the industrialised country at the same low m-h input of 20 units in either instance, as against 80 and 320 m-h, respectively, in the developing country. Given an international terms of trade ratio of 1 : 1 the developing country exchanges 80 m-h against 20 m-h whenever it exchanges its relatively cheaper product, wheat, for watches from the industrialised country. The *direct* m-h comparison evidently demonstrates the unequal exchange.[5] This disadvantage, however, instantly turns into an advantage for the developing country if one reflects

that it must expend not 320 m-h for the production of watches but only 80 *indirectly* in the production of wheat (apart from the fact that the domestic specialisation advantage for the developing country is 320 minus 80=240, whereas that for the industrialised country is zero, *i.e.*, 20 minus 20).

Even though the developing country "gives more objectified work *in natura* than it receives"—as Marx already pointed out—"it nevertheless receives the commodity at a lower price than it would itself be capable of producing it."[6]

Complementary Trade Flows

Beyond the methodologically important distinction between the indirect "horizontal" comparison under the law of comparative advantage and the direct "diagonal" comparison under the theorem of unequal exchange another question arises : what is the point, in the exchange of *complementary* goods (industries), of comparing the difference between absolute labour inputs? If, for example, one country produces and exports industrial/technological goods and the other country cannot supply these but instead produces and exports primary goods, then these goods/exports are not in any competitive relationship to one another but in each case add to the availabilities of the partner country.[7] From a direct comparison of the labour inputs into these complementary productions it is not advisable to make an economic judgement whether the one product is more expensive or cheaper than the other. It would, moreover, be pure coincidence if both these products had the same inputs or prices. The only significant aspects here are, for one thing, the ratio of inputs (prices) with regard to one another and over time (terms of trade), and for another—and even more important—what matters is the explanation of differential prices by differential values in use[8], or by differential degrees of priority in reciprocal demand for these two complementary supplies in both countries. What is inappropriate is a direct "diagonal" comparison of inputs and costs, a comparison which must fail if only, because, in view of the *absolutely* different production availabilities of the two products in the two countries, the costs of whichever products is not available might be put at infinite.

The terms of trade in such a situation can certainly be better

for the one country than for the other, as well as being greatly affected by differential monopoly positions in the commodity and labour markets.[9] Such constellations, therefore, may also have something to do with power and influence. But they can also, and even more simply, be explained, for example, by differences in development levels and catching-up processes within the framework of industrialisation (*e.g.*, values of income elasticities above *vs.* below unity). As a rule there will be unequal labour inputs here, too, but these should not be used as criteria for a normative assessment of such a division of labour and, hence, not as a yardstick of exploitation either. "Unequal" countries, on the other hand do not infrequently also cause an unequal distribution of the availability of goods, and differential conditions of scarcities then cause "unequal" prices or market advantages (rents).[10] Direct cost comparisons for the purpose of establishing reciprocal appropriateness or equivalence are out of place here.

The situation changes, however, as soon as *direct "vertical"* comparisons for *substitutive* production and international trade conditions are added to the indirect "horizontal comparison discussed above (cf. the diagram on p. 497 and footnote 7). Although the customary substitution model of international trade theory[11] is also used by proponents of unequal exchange theory, as a rule they nevertheless have in mind the Prebisch or colonial case of complementary exchange of machinery (technological goods) for colonial goods/raw materials (primary products), an exchange in which the production possibilities of the two groups of countries are likewise complementary. As a result they follow a misleading "diagonal" in the Ricardo model to prove unequal exchange, instead of using the "vertical" that is correct for substitutive exchange.

Substitutive Trade Flows

It is only in the substitution model with an additional direct vertical relationship that the foreign and the domestic supply confront one another directly in competition and now comparisons of costs or labour inputs become meaningful again. This is true particularly with regard to unequal input and not with regard to the correct structure of the division of labour

(choice of export and import goods), this structure being less interesting in any case for the distribution-oriented rather than allocation-oriented theory of unequal exchange.

If one disregards intra-industry trade as a special case, then, even in Ricardo's model, it is, of course, not the same goods which are imported and exported in inter-industry trade but different products, such as wine for cloth. The essential difference of the substitution model as against the complementary model lies in the fact that the foreign supply is seen *not as a complementary but as a displacement* supply, designed to underbid an equally available domestic supply, so that one is dealing not with value in use but with costs in determining the direction of trade flows.

Going one step further, from *micro*-economic comparison of merely certain individual goods or industries to *macro*-economic magnitudes then, in the case of ubiquitous or ordinary competitive products in the substitution model, the development-determined inequalities of countries play a very important part *via* unequal productivity and wage *levels*. Of course, the two levels may be compensatory as a rule. A high level of overall economic productivity entails a high wage level, which means that the potential reduction of prices through the development of productivity can be compensated for by high wages. Conversely, a low productivity level in developing countries is usually offset by a low wage level. With regard to an improvement in the competitive position of the developing countries what matters is not only the resultant of the two opposite movements of wage levels but also the fact that, on balance, the result is not merely neutralisation of productivity levels but over-compensation.[12] In that case, for standardised ubiquitous goods, unequal exchange in terms of differential *real* labour input per unit of output is, in a sense, more than offset by the development of wage levels or other level parameters (such as exchange rates).

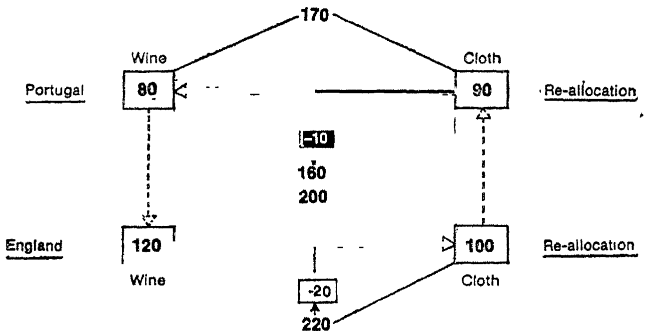
Finally, the substitution model gains an important further emphasis if one includes the assumptions of Emmanuel, for some time no doubt the most prominent champion of the theory of unequal exchange and one with whom conventional economic theory has found it worthwhile to join issue.[13] He sublimates the maintenance of the international immobility

premise for the production factor labour into "institutionally fixed international wage-rate differentials."[14] On the other hand, the abandonment of the international immobility of the production factor capital postulates, moreover not only an equalisation of profit rates but also the elimination of productivity differentials.) The further assumptions of perfect competition and homogeneous labour lead practically to a model for the special case of standardised products and unskilled labour, which is, however, remunerated at different rates in developing and in industrialised countries. The comparison of *real* input is thus fundamentally transformed into a *nominal* one in such a way that unequal wages are paid for equal work— which, of course, means that the charge of exploitation continues to be programmed into the pattern. This situation is probably shown most clearly in the direct foreign investment-model,[15] when capital is internationally mobile and when, in the foreign enclave only the immobile factor labour is "hired" more cheaply in order to keep production internationally competitive and profitable.

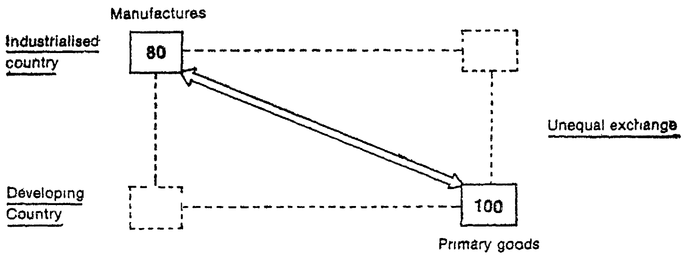
After all, in both these instances "absolute competition" also works against the charge of exploitation since, as compensation for lower wages for equal work, we find in the developing countries the provision of employment which contrasts with the displacement of jobs in the industrialised countries.

If micro-economic analysis of the theory of comparative advantage and of that of unequal exchange are transposed to the macro-economic level then the absolute differentials in productivity or wage levels between the countries may also be seen as a reflection of the differential development of productive forces in the sense of Friedrich List. Unequal exchange in that case would simply be the result of unequal development in industrialised and developing countries.[16] The aspects of justice and normative equivalence would undergo devaluation. Moreover, the problem of unequal exchange then boils down to the rather different question of whether it is *opportune* to exchange more domestic labour for less foreign labour. Unequal exchange in this way acquires an *economic function* in the overall context of international economic development; it is lifted out of the isolation of the exploitation argument. The

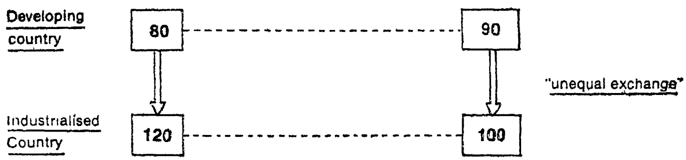
A Specialisation in Comparative Advantages (Ricardo's Model)



B Exchange of Availability Goods + (Complementary trade flows)



C Displacement Competition with Ubiquitous Goods‡ (Substitutive trade flows)



For the Categories of goods see table below

Different Categories of Traded Goods in the New Theory of International Trade

	Hirsch	*Gray*	*Lorenz*
1.	(a) Heckscher-Ohlin goods (b) Every Man's Goods	Ordinary/homogenous competitive goods	Ubiquitous goods (Heckscher-Ohlin)
		Non-competitive or availability goods	
2.	(a) Ricardo goods (b) Poor Man's Goods	Type A : natural resources	Primary goods (in the narrow sense) : minerals/tropical products (A. Smith)
3.	(a) Product cycle goods (b) Rich Man's Goods	Type C : technological expertise	Technological or gap products (Schumpeter/Hufbauer)
4.	—	Type B : limited availability goods	Supplementary bottleneck products : micro-and macro-econ. (Lorenz)
5.	—	Differentiated goods	Preferential goods (Chamberlin/Linder/Grubel)

Source : For S. Hirsch cf. (a) his contribution in : H. Giersch (ed.) International Division of Labour. Problems and Perspectives, Tubingen 1974, pp. 66-69, and (b) Rich Man's, Poor Man's and Every Man's Goods, Tubingen 1977, pp. 3-16.
For P. Gray cf. A Generalized Theory of International Trade, London, 1976, pp. 45-48 (arrangement here with slight divergencies).
For D. Lorenz cf. Dynamische Theorie der internationalen Arbeitsteilung (Dynamic Theory of the international Division of Labour), Berlin 1967, pp. 85-88, 72-73, 157-160 (at that time the designations used in this table were not yet in use).
Taken from : D. Lorenz : Parallels Between Different Systems in International Economic Relations, in Z.M. Fallenbuchl, C.H. McMillan (eds.) : The Choice of Partners in East-West Economic Relations, New York 1980, p. 397.

opportunity argument can, moreover, provide a link with the economic calculus of conventional international trade theory, which in turn could thus become significantly more related to

· in its analysis of relations between developing and rialised countries.

e low wage levels in the developing countries, which are ed in their low-price exports and which are such a thorn : side of the proponents of the unequal exchange theory, ltimately even be interpreted as a development-advantage *ieris* for the achievement of a higher level of employment ;h export strategy. This advantage rests upon the develop-letermined availability of general or structural unemploy-or underemployment in the developing countries. This be interpreted as an additional level parameter or an *'e factor availability.*[17] Parallel to the development of the industry-argument into the infant economy-argument one speak of an enlargement of the micro-economic speciali-argument into a *micro-economic employment argument.* ıg as the models of conventional international trade cling to the premise of full employment, the factor ›ility of structural underemployment is virtually excluded. topical result of the elimination of this model premise be that unequal exchange would then contain a *beggar-ghbour aspect* since employment is achieved at the expense industrialised countries by means of underbidding the :vels of these countries. The beggar-my-neighbour effect ; full attention only so long as full employment and the ry high transformation capacity are either simply ted for the industrialised countries or so long as full ment in the developed countries is not seriously :d.

ntilistic Effects

ereas the general purpose of international trade is seen realisation of re-allocation gains (saving of resources), , in the creation of additional jobs, in the case of North-trade an additional competitive element emerges as the f development differentials, *i.e., vertical* competition[18] cro-economically interpreted low-wage trade.[19] This —if not in its cause then probably in its effect—bears a :ilistic character!

ı a mercantilistic effect may remain limited so long as

the developing countries themselves ensure through domestic development potential and a high propensity to import additional expansive capacities for the industrialised countries. However, once the industrialised countries have used the developing countries for their part as a mercantilistic market potential—via a balance of trade *surplus* in manufactured goods[20]—this element becomes correspondingly less important to disappear altogether. It was, in a sense, already anticipated. The limitation of pressure, moreover, further diminishes as a result of the "counter-offensive" (export strategy) of the developing countries within the framework of the new international division of labour.

This mercantilistic component should finally be combined with an element of negotiation which might be of considerable significance in the assessment of the inequality of North-South trade. It should be remembered that in the process of achieving balance of payments equilibrium the parameters : exchange rate, wage level, and price level can be substituted with one another, and that it is only after the attainment of equilibrium that these parameters are fixed and price advantages and disadvantages of international trade are thereby transformed from relative into absolute ones.[21] Analogously the wage level differentials between developing and industrialised countries could be interpreted as resulting from reciprocal demand or from different national priorities (development priorities, elasticities).

If the drain on import capacity is important for reasons of development-determined requirements in the sense of imports of development goods, an attempt must be made to increase foreign exchange revenue as much as possible by underbidding competitors, this can be achieved by low income (wages) or (currency) devaluation of the developing countries' output.[22] The degree of urgency of the developing countries' import requirements on the one hand and the elasticity of supply of the industrialised countries on the other are the criteria, in the sense of the opportunity reflections made above, of how far the wage level (the exchange rate) may be allowed to drop or to be kept low in order to keep imports economically justifiable.

Just as in industrialised countries productivity losses or cyclical unemployment are combatted by means of a lowered

rate of exchange, or as competitive devaluation is practised to increase market shares—successfully or otherwise according to the reaction or situation of one's trading partners—so the wage level is likewise an instrument for the shaping of the level of employment in the developing countries. Efforts by trade unions in the industrialised countries to incorporate so-called social clauses in order to diminish the danger of competition merely confirm this fact.

Whether imports are bought at the cost of excessively low wages in the production of exports is, therefore, ultimately not a question of exploitation but a question of development priorities. Besides, even a strategy of dissociation or of self-reliance may lead to "domestic exploitation", to cutting into one's own flesh, if the costs of such a strategy become disproportionately high. Generally speaking, the element of exploitation would seem to enter the picture only when (*a*) rational calculations are set aside and/or when (*b*) actual *power* constellations produce an economic distortion of reciprocal demand relations through the use of unequal negotiating positions.

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1. Henceforth "labour inputs" is used in the meaning of quantities of directly and indirectly embodied labour inputs.
2. "Thus, England would give the produce of the labour of 100 men for the produce of the labour of 80. Such an exchange could not take place between the individuals of the same country. The labour of 100 Englishmen cannot be given for that of 80 Englisnmen, but the produce of the labour of 100 Englishmen may be given for the produce of the labour of 80 Portuguese, 60 Russians, or 120 East Indians." D. Ricardo : On the Principles of Political Economy and Taxation, London, 1817, pp. 159-160.
3. H.G. Johnson : International Trade : Theory, in ; International Encyclopaedia of the Social Sciences, Vol. 8, 1968, p. 85.
4. "Equal international values are exchanged for equal international values. Where then, does, the "unequal exchange" lie hidden behind this equivalence ? It is to be found in the fact that these equal international values represent unequal quantities of labour. In the commodity package exported from the metropolitan country let us say that there are approximately 300 million hours of work ; the commodity package exported from the semi-colony, by contrast,

contains—let us say—some 1,200 million working hours . . . Now if there had not been any unequal exchange A would have had to pay, not 300 million, but 1,200 million working hours for the commodity package imported from the semicolony. It would only have been capable of realizing a fraction of his import'', cf E. Mandel : Late Capitalism, London 1978, pp. 359-360 ; translated from the German (Verso Edition). According to Bogomolov, even among socialist countries there is ''no reason . . . why price formation should be (proposed) on the basis of production conditions in the economically less developed countries. In the latter case a unit of less qualified labour of these countries would be the international referential unit,'' cf. O.T. Bogomolov : Theorie und Methodologie der internationalen sozialistischen Arbeitsteilung (Theory and Methodology of the international Socialist Division of Labour), translated from the Russian, Berlin (East) 1969 p. 113.

5. S. Amin, Ch. Pallox : Neuere Beitrage zur imperialismus-theorie (Recent Contributions to the Theory of Imperialism), German translation, Vol. 1, Munich 1971, pp. 42-43.
6. Quoted in Bogomolov, loc. cit.
7. For the distinction between micro-economic models of complementary and substitutive trade flows using various categories of goods cf. D. Lorenz : Parallels Between Different Systems in International Economic Relations, in : Z. M. Fallenbuchl, C.H. Mc Millan (eds.) : The Choice of Partners in East-West Economic Relations, New York 1980, pp. 400-401 as well as D. Lorenz : Explanatory Hypotheses on Trade Flows Between Industrial and Developing Countries in : H. Giersch (ed.) : The International Division of Labour, Problems and Perspectives, Tubingen 1974, pp. 84-92.
8. Cf. also S. Amin, Ch. Palloix, *op. cit.*, pp. 28-29 and 42.
9. Cf. also my interpretation of the Prebisch model, in : D. Lorenz : Non-Equivalent Exchange and International Income Distribution, in : The German Economic Review, Vol. 8, 1970, No. 4 pp. 280-283.
10. On the significance of these elements for foreign trade theory cf. D. Lorenz : Dynamische Theorie der internationalen Arbeitsteilung. Ein Beitrag zur Theorie der weltwirtschaftlichen Entwicklung (Dynamic Theory of the International Division of Labour. A Contribution to the Theory of International Economic Development), Berlin 1967.
11. Cf. D. Lorenz, *op. cit.*, 1967, p. 28 ff. and D. Bender: Au benhandel (Foreign Trade), in : Vahlens Kompencium der Wirtschaftstheorie und Wirtschaftspolitik, Vol 1, Munich 1980, p. 371 ff.
12. Of course, the development of the wage levels in the industrial countries might relieve the burden of the underdeveloped countries by "outcompeting" themselves when wage levels are not in line with productivity progress.
13. Cf. the detailed presentation and discussion with Emmanuel and other authors of the unequal exchange theory, in : A. Schmidt :

Internationale Arbeitsteilung oder ungleicher Tausch, Kontroversen uber den Handel zwischen Industrie-und Entwicklungslandern (International Division of Labour or Unequal Exchange. Controversies on Trade between Industrialised and Developing Countries), Frankfurt 1979.

14. Cf. A. Schmidt, *op. cit.*, p. 226.
15. Cf. *e.g.*, H.D. Meier : Der Konkurrenzkampf auf dem Weltmarkt (Competition in the World Market), Frankfurt 1977, p. 158 ff.
16. This interpretation is also supported by the fact that unequal exchange between *industrialised countries* is not mentioned even by the authors of the unequal exchange theory.
17. Cf. D. Lorenz, *op. cit.*, 1967, pp. 97-100.
18. A. Lemper : Handel in einer dynamischen Welf. Ansatzpunkte fur eine Neuorientierung der Au benhandelstheorie (Trade in a Dynamic World. Points of Departure for a Reorientation of international Trade Theory), Munich 1974, pp. 156-158.
19. G.C. Hufbauer : Synthetic Materials and the Theory of International Trade, London 1966, p. 94 ff.
20. Cf. D. Lorenz : Ursached und Konsequenzen des Neomerkantilismus (Causes and Consequences of Neo-Mercantilism), in : A. Woll (ed.): Internationale Anpassungsprozesse. Schriften des Vereins fur Socialpolitik, NF, Vol. 114, Berlin 1981, p. 24 ff.
21. Cf. D. Lorenz, *op. cit.*, 1967, p. 153 f.
22. Or arises in any case in many developing countries as a result of the pressure on wages by the "reserve army of the Third World."

PART G

LONG-TERM GROWTH PROSPECTS IN THE 1980s

23

World Economic Crisis and Policy Perspective in the Mid 1980s

ANDRE GUNDER FRANK

The 1979-82/83 recession was the fourth in a world economic crisis that may be said to have begun in 1967. The succession of recessions, the advance of inflation, and the doubling of unemployment in the West between the 1967 and the 1973-75 recessions and its doubling again from the latter recession to 1982 in the last one, as well as economic restructuring in the world economy including the differential decline in productivity and the consequent shifts in the political economic balance of power in the West have posed so far insurmountable and still growing obstacles to the effectiveness of both international and national formation and implementation of political economic policy.

In the 1967 recession, from which some industrial countries were exempt (particularly the United States, which avoided it through the Vietnam war) unemployment in the OECD industrial countries of North-America, Western Europe, Japan, Australia, New Zealand, rose to five million. It then declined again until the recession of 1969-70 when unemployment rose to ten million. Then unemployment declined again but only to eight million in the recovery of 1971-73. In the prior to the present one biggest post-war recession from 1973 to 1975, unemployment rose to 15 million. In the then long recovery from mid-1975 to mid-1979 unemployment declined in the

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United States, but it rose so much elsewhere in the industrialized countries, a total unemployment during the so-called recovery that unemployment rose from 15 million to 17 million, which is where it stood at the beginning of the last recession which began in mid-1979 and again doubled the level of unemployment to over 32 million at the end of 1982.* Every responsible economist, business analyst, government spokesman today certainly anticipates that unemployment will continue to rise. The OECD predicted for 1984 an unemployment level of 35 million but the Trade Union adjunct to the OECD immediately criticized that as unrealistic and said unemployment would be certainly nearer to 40 million and I have seen Labour Union estimates of 70 million for later on in this world economic crisis.

The rate of profit began to decline in 1967 and in the 1969-70 and 1973-75 recessions. There came to be substantial unutilized productive capacity particularly in industry. The combination of idle resources plus low rates of profit meant that the rate of investment declined substantially in 1973 and did not recover until 1978, and then only for a year, since with the present recession that began in 1979 the rate of investment declined again. Furthermore, the nature of investment changed from investment to produce more productive capacity in order to expand output, which is what it had been in the long post-war expansion, to so-called rationalizing investment essentially to produce the same kind of output or the same amount with a lower cost and most particularly lower labour cost. This had various policy implications that we may examine below, but first we may make mention of the most popular of the supposed explanations for the crisis, namely the price of oil.

Since 1973 everybody has been blaming, first the increase in the price of oil for the crisis and since 1982 the decline in the price of oil for the same deleterious consequences. In point of fact, the 1973-1975 recession began in the United States in the

* The development of this crisis is examined until 1980 in the author's *Crisis : In the World Economy*, New York, Holmes & Meier, London, Heinemann, 1980. The participation of the Third World in the World crisis and its resolution is examined in the author's *Crisis : In the Third World*, which appeared at the same publishers in 1981.

second quarter, that is to say May/June of 1973, and the so-called first oil-shock did not come until October of 1973, about five months later. So, strictly speaking, it is hardly possible to blame the recession on something that began later than the recession itself did. The same goes for inflation, which people tend to blame on the oil price increase. In point of fact, the rate of inflation had increased dramatically from 1972 on and *declined* after the first oil shock. Essentially the same thing happened with the second oil shock at the end of 1979, which has also been blamed for the present recession, but the present recession began approximately in June of 1979 and the second oil shock did not come until the end of 1979. Then the second oil shock also brought a reduction rather than an increase in the rate of inflation. So, the evidence shows that oil has not been the cause of even the sparks of these events. This is dramatically illustrated by the newest complaints, now that the price of oil has fallen and threatens to continue to fall. Everybody now feels threatened by the *decline* of the oil price and is blaming all kinds of present and prospective serious economic consequences in the world on this fact : This decline will make the oil producing countries unable to import as much as before from the industrial countries ; it will make the oil exporting countries and the oil or energy producing industries unable to finance the debts that they incurred on the basis of prospective earnings based on high oil prices. Therefore, both the companies and the Third World countries are now threatening to initiate a financial crash and possibly to slow down or even to interrupt world trade and to destroy the present international trade system as a whole.

These problems in the world economy—be there a crash and breakdown or not—are some of the manifestations and mechanisms of a far-reaching process of restructuring engendered by the economic crisis, which should be viewed in greater historical prespective. We are in a long structural crisis of overproduction or overcumulation that began in 1967 with the beginnings of the decline in rate of profit and the increase in the number and depth of recessions. This crisis, now of fifteen years duration, is likely to continue for another decade or fifteen years more. In analogy to the last crisis, I believe we are still in the 1920's and have not yet even got into the 1930's, with which

an analogy is often made. The previous crisis in fact, began in 1914 and lasted to 1940-45 ; it included the great depression, two World Wars, the rise of Fascism, two major Socialist Revolutions, in other words vast economic, political, social, cultural changes in the world as integral parts of the readjustment process. The crisis before that started in 1873, after the long expansion from 1848 to 1873 which was characterized by Pax Britannica in which Britannia ruled the waves and free trade reigned in Britain's interest. This period was followed by a major crisis from 1873 to 1896, which brought the rise of monoploy capitalism, the rise of classical imperialism, the renewed rise of colonialism and also vast changes in the international division of labour. Tbe evidence in the present crisis so far shows that we are in a similar situation again and the recovery that is often being talked about by President Reagan and others is not from that crisis, but only from the present recession within the crisis.

This proposition seems to hold not only with regard to economic growth and employment, etc., but also with regard to the declining power of the United States, which President Reagan promised to make Number One again. The crisis of 1873-95 of a century ago was the beginning of the decline of Great Britain as the dominant economic and political power in the world. In the interwar crisis of half a century ago, Britain lost absolutely to the two rivals, the United States and Germany, which had literally been battling for the mantle of Britain supremacy in two World Wars. Of course, the United States won. We enter the period of so-called Pax Americana in the American century which, however, also lasted even less than a quarter of a century. The United States began to lose out relatively in this crisis as Britain did in that of a century ago, beginning in the late sixties with the war in Vietnam in international political terms but I think really based on important shifts in economic competitiveness that are in turn based on changes in productivity.

In the 1960's Western Europe (excluding Great Britain) was increasing its rate of productivity, that is to say its output per input of labour, at twice the rate of the United States and Japan did so at nearly twice the rate of Western Europe or nearly four times as fast as the United States. This differential

growth in productivity and export competitiveness is essentially behind the relative decline of American hegemony in the 1970's. Beginning with the recession of 1973, the rate of productivity growth in all of these economies slowed down markedly from 3 per cent a year to 1 per cent a year average except that in the United States since 1979 productivity has in fact gone down absolutely while it has continued to grow but at much lower rates in Western Europe and Japan. This is what is essentially behind the increasing break-up of the Atlantic Alliance between the United States and Western Europe that became so manifested as a tip of an iceberg in the pipeline controversy and is behind all the talk about a new greater East-Asian co-prosperity sphere that would be under the sovereignty of Japan and/or the Pacific Rim or Pacific Basin strategy. Jacques Attali, the economic advisor of President Mitterand in France, suggest that there is a shift in the centre of gravity of the world economy from the Atlantic in the past to the Pacific now.

So, in each of these three crises, as in many centuries past, there has been a radical shift in the international division of labour and the intersectoral and international division of labour, in which some lose out in a sort of world game of musical chairs. Particularly the leaders lose out and others come to occupy their respective positions, and much of the battle is about the sharing out of the costs and the benefits of this major process of re-adjustment in the world economy. I submit that this process is largely beyond the capability of policy to either affect or even to stem the tide. We may return to this theme in the discussion of the effects of Reagonomics and Mitterand's economic policies below.

In the past also, there were really these international economic forces that were not national and were not subject to the control of the national policy, because if they had been, Great Britain would have taken care not to decline, but there was nothing apparently that Great Britain was able to do about that.*

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* The decline of hegemonic powers and shifting balances of power are further examined in Samir Amin. Giovanni Arrigi, André Gunder Frank, and Immanuel Wallerstein, *Dynamics of Global Crisis*, New York, Monthly Review Press and London, McMillan Press, 1982.

Today, transnational corporations and their ability to plan are often given more credit than they deserve. The evidence is that, if the transnational corporations were able to do as they wish, they surely would not have led us into this world economic crisis. So, there must be something very substantial that is beyond even their capacity to plan. Some corporations used their internal planning and transfer pricing throughout the world to place the principal cost of this crisis on others and to remain relatively unscaved. But it is also true that corporate profits have declined and a number of multinational corporations have been very seriously affected by the crisis. AEG Telefunken in Germany nearly went bankrupt. Chrysler nearly went bankrupt and had to be bailed out by the American Congress. In fact, Chrysler, General Motors and Ford between them lost about 5 billion dollars last year of which Chrysler alone about 3 billion.

Moreover, everyone has been looking at the transnational corporations. Some claimed that they are the saviour of mankind and are going to produce a new technological revolution that will make everybody sit at home and simply watch T.V. or play around with his computer while the machine is doing the work. Others charged that they are the villains of the piece, that essentially they are working against the interest of the people and in favour of profit and so forth and so on. While there has been all this attention to the TNC's, in the 1970's low and behold, it has not been primarily the TNC's that have been re-organizing the world economy, but other primarily bank-financed forces promoted the restructuring of the world economy by the so-called re-cycling of the OPEC surplus and other sources of loans, both to the corporations and significantly to the Third World and to the so-called socialist countries like Poland. This has now led to the debt-crisis, which began with Poland's inability to service its 27 billion dollars of debts, and then the similar inability of Argentina during the Falkland's War, and Mexico in August 1982, and Brazil in October/November 1982. This is also evidence that what is going on is quite beyond the control of the multinationals and in fact, they are not even the major actors anymore as they were in the 1960's.

Hand in hand with these international financial flows, world

productive activity has also been subject to international restructuring through some selective de-industrialization in the major capitalist powers such as the United States, Britain and Australia and the growth of manufacturing production in the Third World countries and particularly in free trade zones. Seen from the "supply side", this restructuring is driven by the need to reduce costs of production during the crisis, and seen from the "demand side" it appears as a drive for markets. One way of reducing cost of production is through belt tightening, austerity policies, and a decline in real wages at home. Another way of reducing costs is to re-locate production from high cost producing areas to low cost producing areas, first in the highly labour intensive industries such as textile, clothing, shoes and so forth and then increasingly also in the capital intensive industries like steel, automobiles, ship building and petrochemicals, which are the four major crisis industries in the West, and to move them to the South or the Third World and to the East, to the socialist economies, where wages are lower and worker-discipline until recently in Poland has been higher. That is one of the reasons for and mechanisms of the change in the international division of labour, leading to the development of the so-called newly industrializing countries or NICs, like the gang of the four : South-Korea, Taiwan, Hong Kong and Singapore. Then, this re-location spreads to Malaysia, the Philippines and to South Asia (Sri Lanka now wants to do the same), and through North Africa and all around the Caribbean and into South America. The so to say "supply side" aspect thereof is that they now supply these manufactured commodities, in part competing with manufacturing in the "traditional" industrial areas and contributing to, but not causing, the decline in employment and the rise in unemployment in the industrial ones.

These supply-side changes in the international division of labour, that took place in response to the economic crisis in the 1970s, were accompanied on the demand-side by important changes in world financing. This transformation in the real international division of labour, in which the industrial wheels of the world and the agricultural ones meshed with each other, had to be oiled by significant changes in financial flows.

The context was that business in the West was not investing as much as it used to. The OPEC-countries, because of the increasing oilprices, had a lot of extra money, which they placed in western banks. Ironically, the western banking system was creating money hand over first at a time when all western governments and several eastern ones had a policy of monetary restraint, in an attempt to control the supply of money. Actually, the supply of money in the world increased by more than twelve times in one decade. The banks, being awash with money and unable to loan this at a profit to western industries, decided to loan it to Third World and socialist countries, who had balance of payments deficits. These deficits were not so much the result of the increase in the price of oil, but a result of the increase of the price of everything else they had to import, or in other words, the reflection of the price inflation in the West. Consequently the Third World and socialist countries began to borrow this money, which is reflected in the increase of the Third World debt from 100 billion dollars in 1971 to 700 or more billion today. For the socialist countries the increase was from 8 billion dollars in 1971 to some 80 billion today. Increasingly this money was loaned by the private banks at relatively short periods of repayment : often five years or shorter term loans.

Looked at from the demand-side, these changes in the international division of labour resulted in an increasing importance of the Third World for western industries : it became an increasingly important market for western industries and economies. The Third World share of western exports increased from about 30 per cent in 1970 to about 40 per cent in 1980. For the United States, Western Europe and Japan, the Third World as a market for their exports became even more important. In the case of Japan the Third World absorbs nearly 50 per cent of its exports. In the case of Western Europe and the United States, the Third World buys more from them than they do from each other. So, from the supply-side view in the world economy, costs of production were lowered by shifting production to low-cost areas in the South and the East. At the same time, on the demand-side markets for western products, particularly from the depressed capital goods

sector, increased by sales to the socialist and Third World countries.

The Third World here means not really all the Third World, but primarily the OPEC surplus countries and the so-called NICs, that were engaged in this export-promotion strategy, for which they had to import the components in order to be able to transform them at home and export them again to the world-market. Thus, the Third World and particularly the OPEC countries and the NICs and the socialist countries became increasingly important in the mechanisms of adjustment to the world economic crisis, as seen from the West, which was able to lower costs of production, to maintain some production through increased exports by selling them machinery and to permit its banks to make a lot of money, by loaning this at good rates of interest.

An illustration is that in the 1973-75 recession, then by far the most severe since the 1930s, world trade only declined by 5 per cent, whereas trade among the industrialized countries declined by 15 per cent. The reason for this is that the most important trading nations in the world exported more to the new customers, than to each other. This is also the reason why West Germany and Japan managed to adjust relatively well to the 1973-75 recession. They could compensate for the decline in the domestic economy by increases of exports to the newcomers. Much of this increase in exports had to be financed by loans to these countries out of the huge supply of money that was then available and not used internally in the West.

This arrangement seemed to be a moderately acceptable solution for all concerned until the new recession, which began in mid-1979 and lasted until the beginning of 1983. That recession lifted unemployment in the West to 33 million, from the 17 million that it had reached at mid-1979. In this recession unemployment grew significantly also in the Netherlands, West Germany and Japan, countries that had managed more or less well in the 1973-75 recession, but now did much worse. Why? It became increasingly more difficult to use the Third World and the socialist countries as a safety-net to 'dampen' the decline of the world economy during the 1979-83 recession.

As in all recessions, the prices of raw material declined, because the industrial demand for raw materials declined. In 1981-82 the price of oil declined. Inflation continued although at a lower rate than before. But the terms of trade of the Third World, that is to say the relation between their import and export prices turned significantly against them.

Then the financial mechanism that had been oiling the wheels of this transformation of world production and world trade ran into increasing difficulties for a number of reasons. The loans that had been issued in the mid-1970s became due and had to be either payed off or refinanced or rolled over. Before doing that, the industrialized countries through banks directly and/or through the International Monetary Fund obliged the Third World and socialist countries to impose stabilization measures : devaluation of their currency, reduction of government expenditures, reduction of wages, reduction of subsidies to popular consumption. All these austerity measures depressed economic activities in these countries. Secondly, the dollar become strong again in the last couple of years, and since most of the debts were denominated in dollars it became more expensive for Third World countries to buy the dollars with which to service their debts or the interests on these debts. Also the rate of interest itself began to rise substantially and the real rate of interest became very high, which contributed to making the financing of the debts increasingly difficult to carry.

In countries like Brazil and Mexico the yearly interest-payments plus the yearly amortization of the part that they were supposed to pay back came to be far more than 100 per cent of their yearly export-earnings. Even the interest-payments came to be more than 50 per cent of their earnings. At the same time the banks themselves had increasingly overextended themselves, so much so, that the ten largest banks in the United States had loaned to Latin America alone more than 100 per cent of their equity-capital. The two largest and best known banks, the Citibank of New York, or Citicorporation, and the Chase Manhattan Bank of the Rockefellers had each loaned over twice their equity-capital to Latin American countries. The Citibank alone has now loaned 93 per cent of all its equity-capital to Brazil alone.

The so-called regional banks also participated in this game of loaning money, either directly to the Third World or *via* the money centre banks like the Citibank and the Chase Manhattan or *via* the Euro-currency market. These small banks also became overextended and when they saw that their debtors were having increasing difficulties to finance these debts, the banks became reluctant to loan them more money, which resulted in a liquidity crisis, which turned into a solvency or financial crisis. The liquidity crisis was that the debts of these Third World countries were becoming due, so these countries had to borrow new money : they had to borrow from Peter in order to be able to pay Paul. But Peter became increasingly reluctant to loan them this money. Thus, as the loans from the western banks declined, the ability of Third World countries to finance the debts declined even more, therefor making the loaning banks even more overexposed and making them loan less new money. A vicious circle began, or better, a downward spiral which turned a liquidity crisis of cash shortage into a solvency crisis of inability to pay. To illustrate, in 1981-82 the net-outflow of dollars from US banks was 40 billion a year, in 1983 it was running at a rate of only 20 billion a year. In the Euro-credit market the outflow of funds was 80 billion dollars in 1982, but only 68 billion dollars in 1983.

This money was necessary to oil the wheels of production, but much of it went instead into speculation or capital flight. It has been estimated that 8 major Third World countries between 1982-83 borrowed 102 billion dollar of which 71 billion dollars were converted into capital flight. This money was invested in appartment building in Miami, Swiss bank-accounts, etc.

The combination of the 1979-83 recession, that led to decline in demand for raw materials and industrial products from the Third World, and the financial crisis led to economic and political crisis in one country after another. The first major one was Poland with 27 billion dollars of debts in 1980-81. Then came the crisis of Argentina with 40 billion dollars of debts in 1982 during the Falkland/Malvinas war. Then came the crisis in August 1982 in Mexico with 80-85 billion dollars of debts. Then came the October-November 1982 crisis in Brazil, with also 80-85 billion dollars of debt.

In the meantime Prime-minister Muldoon of New-Zealand

has counted 40 Third World countries, ranging in the alphabet from A Argentina to Z Zambia and Zaire, through every other letter of the alphabet, Cuba, Yugoslavia, Turkey, Philippines, Chile, Venezuela, you can name that has been unable to meet adequately its financial obligations to the banks in recent years.

The result is that each of these countries finds itself increasingly in a position where it has to do everything it can, simply to finance the interest on the debt and therefore, is unable to do anything else. In order to finance the interest of the debt it has to engage in very severe belt-tightening, super-austerity measures at home, including for instance raising the price of bread by 100 per cent as the Tunesians tried, and as the Poles did of meat, which launched the Solidarity Movement in 1981. Their imports of everything else they buy naturally declines. That is why imports into Brazil and Mexico have declined by 30, 40 and 50 per cent. That also means of course, that exports to the Third World from the industrialized countries, which had become so important for their recovery, have declined by similar percentages.

In the Third World as a whole the growth-rate of per capita production and income was zero in 1980 and has been *negative* for each of the following years. And despite the so-called recovery begun in the United States in 1983 the growth-rate in the Third World will likely be zero or negative for an unprecedented fourth year in a row, which is comparable to, and in many ways more serious than, the depression of the 1930s. In Latin America output per capita has already fallen by 10 per cent since 1980 back to the level of 1977. Income per capita has fallen even more, because Latin America's external terms of trade between its import and its export prices has fallen by some 40 per cent since 1977 to a level below that of the 1930s depression. Inflation rose to an average level of 86 per cent in 1982 and 130 per cent in 1983 and to more than 200 per cent in some of the countries. Unemployment has risen by leaps and bounds to increase the previously already high level by many millions, as investment stopped and as many thousands of firms, including billion dollar enterprises in Brazil, went bankrupt. The external sector counterpart, and in large part cause of this domestic economic disaster, has been

declines of imports by 20 per cent in 1982 and another 30 per cent on top of that in 1983, due to foreign exchange shortages, while exports declined far less, in part due to protection, so that the region had a positive balance of trade. That means that it exported more than it imported. The difference represents a net capital export from the poor Latin American countries to the rich Western industrial countries, which was further increased by the decline of capital inflows from the West.

Domestic production fell in 14 out of 19 Latin American countries in 1983. Output per capita declined in the last three years by 20 per cent in El Salvador, Bolivia and Costa Rica, by 15 per cent in Uruguay, Chile and Peru, by 13 per cent in Argentina and Guatemala, by 12 per cent in Brazil, by 10 per cent in Venezuela and Honduras, and by some 5 per cent in Mexico. In Africa and some parts of Asia also the external decline in raw materials prices and the rise in the debt service—less severe there, because they had been able to borrow less from commercial banks in the 1970s—and the domestic decline in the per capita food production, now combined with the renewed drought in Sub-Sahara and Southern Africa have seriously deteriorated levels of living and is threatening millions of people with starvation.

This poses a number of dilemmas. In order to continue the flow of payments from the Third World it is increasingly necessary to squeeze blood out of a stone by reducing the level of living of the people at home and to convert this domestic surplus production into export surplus, that is to say to export more than they import. This has occurred recently in Poland and elsewhere in Eastern Europe and now also in Mexico, Brazil, etc.

From the point of view of the international bankers this appeared as a great success, because by exporting more than they import, these countries use the difference to service the debt. But of course this is done at very severe economic and political costs at home. So the question comes how far the West through its governments and its banks and the International Monetary Fund can push these Third World governments to push their populations to tighten their belts.

Already at the end of last year the Brazilian parliament was unwilling to pass the austerity budget that the government had

negotiated with the International Monetary Fund, which would have meant an immediate 20 per cent reductions in average real wages and for the poorest people much larger reduction in real wages. Eventually they came to a compromise-solution or semi-solution in which the wage decline would be somewhat less. But all this was only a stop-gap measure, an asperine, to treat the cancer.

The question remains how far can they be pushed. This is a particularly important question for the United States in the case of Mexico, because the last thing that the Americans need, given the situation in Central America and elsewhere in the world, is to push Mexico into economic bankruptcy or into political revolt and have another several million or tens of millions Mexicans trying to stream across the Rio Grande, looking for work in the United States.

So the West and particularly the United States are in a position of being damned if they do and damned if they don't. If they do press too hard they threaten to push the Third World countries into bankruptcy and revolt. Even without bankruptcy or revolt, they threaten to push these Third World countries into a very simple rational calculation, which is whether it is worth continuing to service the debts or not: expressed in simple monetary terms, since 1978 certain Third World countries borrowed 140 billion dollars, but they used a 126 billion of that to finance the debt and only had 14 billion, that is to say 10 per cent left over to import anything. But in 1983 alone the non oil-producing Third World countries received new loans of 57 billion dollar, and they made debt-service payments of 59 billion dollar. In other words they were paying out more than they were getting. So after a while it becomes quite rational for them to calculate that it is not worth all these sacrifices to receive the loans if they are receiving less loans than what they are paying out in interests. This calculation can lead to the possibility of debt payment moratoria or default either individually or collectively.

Right now several presidents of Latin American countries are meeting in Quito, Equador and are formulating a declaration, saying that they are unable to pay at present rates of interest and with present terms and soforth and that unless

all this is changed they will be unable to continue to finance the debt.

This, however, also poses the very real threat that the moratoria or defaults will lead to the beginning of a financial crash, which would then spread chain-fashion or like falling dominos through the entire world-banking system, to make it like the collapse like a house of cards. Therefore, the international division of labour, as we know it at the present time, would cease to operate. Even without a crash, this international division of labour is barely operative now, because international trade can no longer proceed as it did during the 1970s as long as the Third World can no longer import or export.

This raises the other dilemma: how to avoid this. Here is another "damned if you do and damned if you don't"—dilemma, that is result of the development of this world-financial crisis and of the participation in the Third World within it. There is a lot of talk about building some kind of a safety-net, whereby governments or their central banks or international institutions would catch the banks or corporations as they go bankrupt and prevent the bankruptcy of one spreading to the others and therefore, leading to a general crash. To do that, however, it would be necessary to offer guarantees that the banks will be bailed out. This raises what some people, I don't know why, call a moral problem : if the banks get this guaranty then they will continue to be as irresponsible as they were in the past. If nobody gives this guaranty to the banks, it may be impossible in a emergency to put together a rescue-package, and the threat of a world financial crash may become reality. Surely that would produce a financial crash and an economic depression far greater than the financial crash of 1929, because the relations between one part of the world and another *and including* the socialist countries, and including China and Cuba, are far greater today than they were then.

The question is how to avoid such a bankruptcy but still allow some reduction of overbloated capital. Technically it is always possible to avoid bankruptcy or unilateral moratoria by simple agreeing on more time to pay, and this is what is being done all the time now. But the problem comes whether the lenders are able to come to some essential political agreement of who is going to bear the costs of a default or a refinancing

of the debts. It is very possible that the international bankers, their central banks and their governments cannot agree quickly enough to prevent a domino effect.

This problem is being continually aggravated by the rise in the rate of interest (each percentage point rise adds about $ 4 billion to Third World debt), and the (il)liquidity problem is likely to turn into an acute (in)solvency problem as soon as the 1983 "recovery" is replaced by the next recession some time in the mid 1980s. Then many Third World countries will simply be unable to continue servicing their debts on time unless they obtain significant debt relief before that. The development of this debt crisis and the poor perspectives for its resolution are examined in more technical detail in the author's paper "Defuse the Debt Bomb? When Apparent Solutions Become Real Problems" (World Policy Journal, Summer 1984).

This experience offers several more interesting lessons. One is that while everybody was watching the supposedly epoch-making multinationals (as saviors or devils), in the 1970s the real action took place elsewhere—through the financial system. The other lesson is that tight monetary policy, which became the gospel preached and practiced by each national monetary authority and government, completely failed to control the supply of money at the world level, which on the contrary exploded completely out of control in the EURO-currency and other markets. It has been estimated that in the decade of the 1970s the amount of bank reserves alone multiplied by eleven or twelve times—the amount of money created in the world since its invention! It is also interesting to note that the very "link" between money creation and its transfer to the Third World as purchasing power, which the Group of 77 Developing Countries demanded at UNCTAD III in 1972 (and which has again been proposed by the Brandt Commission more recently) but which has been steadfastly rejected by the industrial countries as a matter of policy, has as a matter of praxis been established—through the loans of this new money to the NICs—without the intentional intervention of any policy making body. Ironically, moreover, despite the very "tight monetary policy" Western governments are now urging their private banks to keep this financial flow going and growing,

lest failure to do so might lead to failure of the entire banking and international trade system!

These crisis developments suggest that the world economy is not very much subject to political or economic policy control. This limitation to the effectiveness of economic policy is particularly evident at the national level. In the United States, Jimmy Carter came to power on a programme of fighting unemployment first and inflation second. One year after he came into office, Carter felt obliged by circumstances to make inflation public enemy number one instead and to pursue a restrictive policy, which was then carried to its logical conclusion by Ronald Reagan with his monetarism and supply-side economics. The same happened in Britain. In 1976, James Callaghan switched from Keynesianism to monetarism. The same thing happened in France, under Raymond Barre and Giscard d' Estaing and in Germany under Schmidt, and so forth throughout the industrialized countries. Essentially, Keynesianism was abandoned and monetarism and supply-side policies were enshrined in the drive to cut costs of production (instead of managing demand) and to promote productivity, which declined despite all efforts to the contrary.*

After Jimmy Carter tried and failed to rebuild America's confidence, Ronald Reagan promised to make the United States Number One again. His supply-side tax cuts were going to revive the economy so much as to reduce the budget deficit to zero by 1984. All these well-laid plans of mice and men have gone down the drain; the American budget deficit is likely to be $ 150-160 billion this year, and they are talking about $ 200 and $ 300 billion next year, because none of these policies have worked.

Mrs. Thatcher came into office like Mr. Reagan to get the government off our backs. Far from having decreased, government expenditures as a proportion of income have increased. In fact, it was the Labour government of Jimmy Callaghan

* These reasons are further examined in the author's "After Reagonomics and Thatcherism, What ? Keynesian Demand Management via Supply-Side Economics to Corporate State Planning", *Contemporary Marxism*, San Francisco, No. 4 Winter 1981-82

who reduced government expenditures as a proportion of gross national product from about 48 per cent to 43 per cent, and it was Mrs. Thatcher who has brought them back upto 48 per cent, despite her supposed anti-government policies. In the meantime, she has completely scuttled British industry. The depression in British industry under her government has been greater than at any time in recorded history including 1930 to 1933 and including the time after 1873 and in the 1880s.

But it is not strictly correct to blame Ronald Reagan or Margaret Thatcher for these failures. They simply make policy ripples on a major long wave of the world economy that do not respond to these policies and that certainly are not caused one way or the other by these policies. The wholesale failure of monetarist policy among Friedman's disciples in Chile, Argentina, Israel and the like in the Third World, which have been struck by near total economic disaster during the past year are spectacles to behold—and traumas to suffer by their victims.

Social democratic policy makers in Canada and France and socialist ones in China, the Soviet Union, the Europe have not fared any better. After abandoning Maoism, China began its "four modernizations" drive in 1976 with increased investments and technology imports from the West, but domestic and world economic circumstances—and their connection!—obliged China to retrench on this programme again since 1979. In the Soviet Union the growth rate has declined each year since 1979, and according to some estimates has been zero. Because of non-fulfilment each previous year, planned output and growth targets have had to be revised downward each year but nonetheless remained unfulfilled again. The 1983 growth target was the lowest since before Stalin.

The decline in the world price of oil and gold, as well as on other commodities for which the Soviet Union depends on export earnings, pose further threats to the Soviet economy. After having embarked on a major drive to import Western technology since 1971—like other socialist economies in Europe and Asia—and after an apparently successful growth programme in the mid 1970s, Poland found that in 1979 production went down by 2 per cent, in 1980 it went down by

4 per cent, in 1981 it went down by 14 per cent, and last year, 1982, it probably went down by 10 or 12 per cent; they have a long way to plan until they can even get back to square one. Then Romania, Czechoslovakia and then even the reformed economy of Hungary have suffered balance of payments and debt crises and negative growth rates. Yugoslavia suffers from a major economic crisis. Planning has now failed in all of these countries.

Elsewhere, Trudeau was re-elected in Canada and proposed a modified Keynesian policy to take advantage of Canada's position as a producer of oil to try to parlai the resource oil boom money into Canadian industry. This strategy failed and now is completely unrealistic because the price of oil has gone down. Austrialia's resource boom bubble also brust in 1982.

Similarly, Mitterand was elected in France on a national Keynesian programme and wanted the French market for the French by reflating. This policy also failed. In fact, what Mitterand did was to expand the French market for the Germans. The balance of payments went completely to hell; he had to devalue it twice and is likely to have to devalue a third time. At the beginning of July 1982 he had to completely turn about his Keynesian policy and impose a wage and price freeze, abandon all of his reflationary policies and go back to the same kind of policies that everybody else is pursuing.

The other thing that Mitterand has done is a preview of what I think is the coming thing everywhere: a sort of State planning, State investment policy, macro-industrial policy. In the United States the financier Felix Rohatyn is proposing a revival of the Roosevelt New Deal Reconstructing Finance Corporation (RFC) in which the State would guide investment into high tech areas and in some cases abandonning the low tech areas or low tech industries, like steel and textiles and so forth, and let the Brasilians and the Koreans produce steel and textiles. In the case of France, Minister Chevenement proposed to save these industries by switching them from low tech to modern high tech.

The question comes whether it is possible to do this on a national basis. It may not be possible to do so in a country as small as France and as dependent on the Common Market and

on the world economy, and I have my doubts about whether perhaps even the United States economy with all of its power may be able to do so or to pursue the so-called re-industrialization alone through this kind of policy. But it is probable that in 1984 the Democratic party in the United States will inscribe on its electoral banner some kind of motto about the State investment guidance. They may not use the word planning because it is a dirty word in the U.S., but the Democrats are likely to propose a sort of RFC. But even the Republicans, with or without Reagan, may do so beforehand, to forestall the Democrats.

Everywhere in the industrialized world, not withstanding all the ideology about getting the government off our backs and letting free enterprise do its work in the market and all that, macro-industrial policy is the coming thing in the 1980s. It will be promoted through tripartite co-operation between the State, labour and industry. Labour Unions or Trade Unions will be asked to co-operate and the Trade Unions will say : we want some industrial democracy in return; that is to say we want to have some kind of say in what goes on, particularly in the distribution of the costs of this investment programme, so that the rich do not get off scottfree while we bear all the costs. Much of the political battles in the 1980s may be around that kind of issue.

But the question still will come whether it will be strictly on a national level or on regional block level, such as a West European block or a East-West European block, a Japanese led Greater East Asian Co-prosperity sphere or a Pacific Rim in which Australia and other countries will have to try to find some kind of privileged niche from which to draw some benefits rather than being made to bear all the costs.

It seems that the international economic system is on a roller-coaster that is out of control. It seems that we cannot get off the roller-coaster but are stuck on it, and we are just going to go through to wherever it is going or finally stops. If that is the case, are we going to have to accept that we are not in any way the masters or even have much of a voice now in political economic destiny? Another analogy for the roller-coaster is : "Stop the world, I want to get off." It is not clear that in this day and age this is a really realistic prospect, or

indeed whether it has ever been. The socialist economies to some extent did this—incidentally not so much of their own volition as because the Americans embargoed them into doing it—and they made some important progress in being relatively isolated. But they now find, particularly with regard to technological change, that they are now coming back, whether they want to or not, whether they have to or not, into the world capitalist economy. Ironically, they are coming back into the international capitalist international division of labour under the banner of socialism, while governments led by the likes of Ronald Reagan are going to go into planning under the banner of free enterprise.

This illustrates, among other things, that we suffer from some ideological confusion or at least irrelevancy of some of our traditional ideologies. Industry and government, and probably labour as the other part of the tripartite arrangment as well, will be pursuing policies that respond to circumstances and that have precious little to do with their stated ideologies or their stated preferences, and they are not likely to be very much in a position to dictate terms to anybody or to formulate policy in the usual sense of the word. Many will essentially pursue practices that are governed by the apparent needs of the moment and these needs of the moment are determined by forces completely beyond their control and often beyond their understanding and sometimes beyond their recognition. If we recall what happened with the present world crisis, we were a long way into the world crisis before any of these leaders—West, East and South—even recognized where they were, let alone formulating any kind of policy to get us out of it.

Nonetheless, not all is in vain. It is better to light a candle than to curse the darkness—or to claim illumination where there is none. Honest observation of reality and critical analysis of our pathways through it can still illuminate our way. Realistic policy formation guided by the stream of events—instead of swimming against it or going off the deep end—still offers programatic alternatives for political choice. In Europe, for instance, new options are posed by the simultaneous decline of the Atlantic Alliance and the impossibility of the Soviet bloc to continue without substantial change. Some

realistic options for Europe (and some unrealistic policies) are examined—and a preference is stated and defended—by the author in a book entitled—

The European Challenge

From Atlantic Alliance to Pan-European Entente for Peace and Jobs (Nottingham, Spokesman Books, April 1983).

These developments in the world economy are also setting the stage for possibilities in the Third World that many people regard as more optimistic. There may be a financial crash, and with that a breakdown of the International Trade System and with that a complete abandonment of export-led-growth and soforth. But even if there is no crash, the continued so-called financial crunch and for the time being increasingly difficult operation of the international economy will change the economic and political prospects in the Third World considerably from what they were in the 1970s.

In my view, by analogy to the last crisis, we are still in the 1920s and we have not yet reached the 1930s in the development of the present crisis. If we do reach the 1930s in the development of this crisis then the prospects of the economic, political, social, cultural, religious movements in all parts of the world, including of course liberation and socialist movements in the Third World, will change very radically.

The already increasing malfunctioning of the world economy and even more a possible breakdown of the world economy will make economic nationalism, political nationalism, cultural nationalism and these often combined with religion again the order of the day in one part of the world after another and of course most particularly in a whole variety of socialist and Third World countries around the world. In that case there may be all kinds of national and nationalist political—that is populist—adaptations of which that of Ayatollah Khomeiny in Iran is perhaps the so far most spectacular example, albeit of course largely a very reactionary one. The proponents of these movements will ask for the credit for their relative successes, but the real credit for their relative successes will lie less in these movements, than with the opportunities that the

breakdown of the world economy will offer them. As I suggested in my article on 'Development of Underdevelopment, nearly 20 years ago, when there is a crisis in the North and the world economy, then relatively autonomous development strategies have temporarily a greater chance, at least in some parts of the Third World.

Already today, with the relative breakdown of the Mexican economy, there has been a new shift from export promotion to import-substitution. The Latin American presidents and their personal representatives meeting in Quito, Ecuador, endorsed proposals for a concerted return to import substitution, both nationally and regionally, through regional co-operation. With the crisis in the world economy the Argentinian junta was unable to survive, the Falklands/Malvinas war. President Marcos and General Pinochet in the Philippines and Chile are increasingly in political difficulties, because they loose the support of business interests, which they had before; and there is the call for alternative economic and political policies in one country after another. What happens in world economy determines, or at least possibilitates different national economic, political, religious and other movements and strategies in various parts of the world. If there are such national and nationalist solutions, including the possibility of renewed economic blocks, a dollarzone in the United States and the the Americas, a Markzone between Europe and Africa, a Yenzone in East Asia and soforth, what are the prospects for the year 2000 and what are the prospects for socialism of nationalism?

Unless there is a nuclear war, which is a distinct possibility, it is very likely that the world capitalist economy will come out of this crisis again, as it has come out of many economic crises in the centuries past. These national and nationalist policies or policy-responses to the economic crisis—contrary to my friend Samir Amin, with whom I disagree on this point—will not ultimately be anti-systemic by making it more difficult for the system to work and will not contribute to the breakdown of the world economic and political system. I fear that this hope is excessivily optimistic and unrealistic. On the contrary these movements or the policies that these movements can and will put into practice are likely again to be co-opted by the world

economic system and will contribute to its eventual recovery and renewed strengthening during the next technological revolution, which will increase the North-South gap further and leave the Third World more behind and dependent than ever.

Thus, there could be another period of world economic expansion around the year 2000, which will be built on the ashes of the present world economy as we know it, at the cost of tremendous human sacrifice, which is already being paid, and that I fear will be paid many times over still. That is, the amount of politically enforced human suffering necessary for the restructuring of the world economy is likely to increase still very vastly in the 1980s and 1990s, before a recovery of the world economy around the year 2000 is possible.

Whether that is an optimistic picture or pessimistic picture, depends on your point of view, time perspective, and of course, class position. I fear, that in this year, 1984, Orwell's novel about *1984*, still has a great many insights that are likely to become increasingly true in the foreseeable future.

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International Development Strategy for the third UN-Development Decade : Review and Appraisal of Implementation

ISTVAN DOBOZI

I. Goals of the International Development Strategy

At its 83rd session on 5th December 1980 the UN General Assembly adopted a resolution on international development strategy of the period 1981—1990, setting rather ambitious goals compared to the previous two development decades.[1]

The principal goal set was an *acceleration* of the economic development of the Third World. For the developing countries as a whole the programme called for an average annual growth rate of 7 per cent in GDP which corresponds to a growth of 4.5 per cent in per capita domestic product. Acceleration of the rate of development necessitates a rapid expansion of the developing countries' foreign trade : 7.5 per cent a year in the case of exports and 8 per cent of their imports. The acceleration of development calls for a substantial increase in the gross investment ratio which must reach 28 per cent of the GDP by 1990. To underpin this, the domestic savings rate must also rise to 24 per cent by 1990. A substantial

Editors' Note : This article is published with the kind permssion of the author and *Development and Peace*, Budapest, (1984).

increase in external financial resources is required for the growth of investments and imports : the proportion of official development assistance is assumed to reach 0.7 per cent of the GNP of the developed countries by 1985 or by 1990 at the latest. The development strategy calls for a 4 per cent annual growth rate in the agricultural production of the developing countries in order to improve their self-sufficiency in food and to increase food security. In the case of the manufacturing industries, production is anticipated to grow by an average annual rate of 9 per cent. (Table 1 shows the most important aggregate quantitative objectives of international development strategy.)

As regards the policy measure, a new element in the Third Development Decade is that it creates a close conceptional link between international development strategy and the efforts to establish the new international economic order. This reflects the recognition that one of the reasons why the objectives of the Second Development Decade were not fully attained was that they were defined on the basis of the existing system of international economic relations. Global negotiations were defined as one of the chief instruments of implementation of the international development strategy.

The following main measures were defined for implementation of the international development strategy.

In *international trade*, lowering or abolition of the barriers impeding imports from the developing countries ; putting into operation of the Integrated Programme for Commodities ; further development of the generalized system of preferences ; encouragement and expansion of trade among the developing countries.

In the area of *industrialization* : the redeployment of certain industrial capacities to the developing countries on the principle of dynamic comparative advantage ; substantial increase in the financial transfer and technical assistance necessary for accelerating the industrialization of developing countries.

Agriculture and food : the implementation of agricultural reforms ; substantial increase in investments in agriculture ; improvement of food security through national and international efforts ; the integrated development of rural areas.

Table 1 : Main Quantitative Objectives of the International Development Strategy for the Developing Countries[a]

(*Percentage*)

Average annual growth rate between 1980 and 1990	
Gross domestic product	7
Per capita GDP	4.5
Agricultural production[b]	4
Manufacturing industry output	9
Exports	7.5
Imports	8
As a proportion of GDP in 1990	
Gross domestic investment	28
Gross domestic savings	24
Volume of external financial sources in 1990	
Net official development assistance (as a percentage of GDP of the developed countries)	0.7

(a) Excluding the developing countries with centrally planned economies.
(b) Gross production.

Source : *International Development Strategy for the Third United Nations Development Decade*, A/RES/35/56, 20 January 1980.

International financial relations : raising the rate of official development assistance to the level indicated in the strategy ; priority for the least developed countries in granting aid ; substantial increase in funds from the international and regional development institutions ; easing the debt burdens of the developing countries ; reform of the international monetary system in order to establish a system that is more stable, just and efficient than the present one.

II. International Development Strategy and Actual Development at the Beginning of the Eighties

Actual data and preliminary estimates are available only for 1981 and 1982, only one fifth of the Third Development Decade. It is generally not possible to draw conclusions regarding the success of a ten-year strategy on the basis of such a short period. However, the fact that the actual course differs

so radically from the objectives of the international development strategy, and that the unfavourable processes that have emerged do not appear to be transitional, seriously raises the possibility of the *failure of the development strategy.*

Table 2 : Annual Growth Rates of Output Volume, by Country Groups and Major Sectors, 1979-1984

(Percentage)

Item and country group	1979-1980	1981	1982[a]	1983[b]	1984[b]
Gross domestic product[c]					
World	3.9	1.4	0.2	2	3.5
Developed market economies	3.5	1.3	—0.3	2	3.0
Developing countries	5.2	0.7	—0.7	2	3
Centrally planned economies[d]	4.3	2.2	2.6	3.5	4
Agricultural production					
World	2.0	3.0	1.9	..	..
Developed market economies	1.9	3.7	1.0	..	..
Developing countries	2.6	4.2	1.2	..	..
Centrally planned economies[d]	1.6	1.5	3.5	..	..
Industrial production					
World	4.7	0.7	—1.0	..	..
Developed market economies	4.4	0.4	—2.3	..	..
Developing countries	4.8	—1.4	—2.0	..	..
Centrally planned economies[d]	5.3	2.5	3.1	3.5	..

[a] Preliminary estimate.
[b] Forecast for the developed market economies and developing countries, plan figures for centrally planned economies.
[c] Net material product in the case of the centrally planned economies.
[d] China, Eastern Europe and the USSR only.

Source : *World Economic Survey 1983. Current Trends and Policies in the World Economy*, New York, United Nations, Department of International Economic and Social Affairs, 1983, p 65.

As Table 2 shows, the rapid economic growth in the second half of the seventies in the developing countries gave way, practically without transition, to *economic stagnation* in the early eighties. While in 1976-1980 among the three groups of countries in the world growth was most rapid in the developing countries, by the beginning of the eighties the slowdown was the greatest in these countries. An indication of the gravity of the change in trend is to be found in the fact that prior to 1982, the combined GNP of the developing countries had not declined in absolute value in a single year since the Second World War. In the period of the eighties so far there has been a continual absolute decline in per capita national product.

Table 3 : Growth of GDP in Selected Groups of Countries within the Developing World, 1976-1983

(Percentage annual change)

Country group	1976-1980	1981	1982[a]	1983[b]
Developing countries	5.2	0.1	—0.7	2
Net energy importing	5.1	1.6	0.9	2.5
Net energy exporting	5.2	—0.4	—2.6	1
Surplus countries[c]	3.5	—8.3	—7.4	..
Other energy exporting countries[d]	6.2	4.1	0.1	..

(*a*) Preliminary estimates.

(*b*) Forecasts.

(*c*) Brunei, Iran, Iraq, Kuwait, Libya, Saudi Arabia, United Arab Emirates.

(*d*) Algeria, Angola, Bahrein, Bolivia, Congo, Ecuador, Egypt, Gabon, Indonesia, Malaysia, Mexico, Nigeria, Oman, Peru, Syria, Trinidad and Tobago, Tunisia, Cameroon, Venezuela.

Source : *World Economic Survey 1983, op. cit.*, p. 3.

As Table 3 shows, the substantial slowdown in growth has mostly affected the energy-exporting countries within the Third World. Their GNP declined in absolute value in 1981 and 1982 ; this drop was particularly marked in the case of the oil-exporting countries with a lasting capital surplus. Among the main groups of countries, only the manufactured goods exporter developing countries of South and East Asia have succeeded in

avoiding the fall in per capita national product, although the slowdown in growth has been substantial in these countries too. The economic recession has thus spread to the great majority of Third World countries and some of them are showing marked signs of depression.

The break in the trend of GNP growth occurred in a period when the developing world's *agricultural production* expanded at a relatively acceptable rate, although even so, the growth rate was less than the annual 4 per cent provided for in the current development decade. However, it is fact that the performance of agriculture acted as a moderating factor on the general recession.

The decline within the developing world has had the greatest impact on the *industrial sector*. Instead of the rapid growth set as a target, industrial output has declined in absolute value in two consecutive years (1981 and 1982), moreover at an accelerating rate. Within industry the decline has been most serious in the manufacturing industries, although the development decade calls for an annual growth of 9 per cent in this sector.

To ensure acceleration of the rate of development, the international development strategy provided for the rapid expansion of *foreign trade* turnover, particularly in the case of exports ; the goal here was an annual growth of 7.5 per cent which is two and a half times greater than the actual growth rate achieved in the period from 1971 to 1980. Among the most important aggregate indicators figuring in the strategy, the gap between the target and the actual performance is the greatest in the case of exports. As Table 4 shows, the volume of exports from the developing countries declined in three successive years, although the substantial fall in oil exports undoubtedly played a great role in this. Among the different groups of countries in the world, exports by the developing countries have been most severely affected by the halt in the past growth of world trade. In earlier years, exports by the oil importing developing countries rose rapidly, in order to counterbalance the deterioration in terms of trade and maintain solvency. This gave way to a sharp fall in the growth rate in 1982 and even the most successfully exporting group of countries in the Third World,

Table 4 : Annual Rates of Change in Volume of Foreign Trade in Major Groups of Countries

(*Percentage*)

	1971-1980	1980	1981	1982[a]	1983[b]
Volume of exports					
World	5.5	2.1	0.8	—1.5	2
Developed market economies	6.3	4.2	2.1	—2	2
European centrally planned economies	6.7	2.4	0.4	4.5	2
Developing countries	3.0	—4.5	—3.6	—4.5	3.5
Capital surplus countries[c]	0 8	—17.4	—18.4	—16.5	. .
Other net energy exporters[d]	0.2	—6.8	—8.4	—3	5
Net energy importers	7.2	9 1	9.6	1.5	4
Volume of imports					
World	5.2	1.0	1.7	—1.5	2
Developed market economies	4.6	—1.5	—2.2	—1	2.5
European centrally planned economies	7.4	3.8	0.7	0.5	1.5
Developing countries	6.5	8.1	14.7	—3.5	—0.5
Capital surplus countries[c]	18.4	15.5	30.1	7	5
Other net energy exporters[d]	8.7	18.3	22.2	—8	—3
Net energy importers	3.5	1.5	5.4	—5.5	—1.5

(*a*) Preliminary estimates, rounded to the nearest half of a percentage point.

(*b*) Forecasts.

(*c*) Brunei, Iran, Iraq, Libya, Qatar, Saudi Arabia, United Arab Emirates.

(*d*) Algeria, Angola, Bahrein, Bolivia, Congo, Ecuador, Egypt, Gabon, Indonesia, Malaysia, Mexico, Nigeria, Oman, Peru, Syria, Trinidad, and Tobago, Tunisia, Cameroom, Venezuela.

Source : *World Economic Survey 1983, op. cit.*, p. 38.

the newly industrializing developing countries, have been unable to avoid a substantial decline in the growth rate of exports in 1982 and probably in 1983. The rapid growth rate of imports characteristic of the seventies and the beginning of the eighties was followed by an absolute decline in 1982 and probably in 1983. The fall in imports and its effect in restricting overall growth has been particularly marked in the non-capital surplus OPEC countries and in the developing regions other than the newly industrializing countries. However, the forecasts for 1983 indicated a substantial decline in imports in the capital surplus OPEC countries too.

The international development strategy regards a substantial increase in the *investment rate* as indispensable for acceleration of the growth of the developing countries. However, in the eighties so far, instead of the anticipated rise, this rate has fallen in the majority of countries, reversing the rising trend characteristic of the seventies. In the unfavourable international economic environment many developing countries have been obliged to revise their investment programmes, resulting in cuts in most cases.

Attainment of the objectives defined by the development strategy requires a substantial increase in the real value of *external financial resources*. While in the seventies the official development assistance extended by the advanced capitalist countries increased in real value more rapidly than their GNP, on the average for the first two years of the eighties, the amount of development aid declined even in nominal value compared to 1980. The share of official development assistance in GNP of the advanced capitalist countries declined to 0.35 per cent in 1981 but rose to 0.39 per cent in 1982 due to the fact that the aid (at current prices) increased by 9.3 per cent, while the donors' combined GNP declined by 0.3 per cent. The amount of official development assistance extended by the OPEC countries also fell substantially below the 1980 level.[2] Despite the decline in official development aid, in 1981, the net value of total external resources flowing into the developing countries (under preferential and commerical terms) increased by 12 per cent in real value, mainly as a result of the strong expansion in loans by private commercial banks and foreign direct investments.[3]

However, 1982 brought a sharp break in the trend, the

credits extended by commercial banks to the developing countries declined drastically and there was also a fall in foreign direct investments. On the whole this resulted in a substantial decline in the volume of total net resources directed to the developing countries in the early eighties. In 1982 the net value of capital directed to the oil-importing developing countries alone declined by 35 million dollars (largely because of the withholding of new credits by the commerical banks).[4] This new trend probably continued in 1983 too.

III. Causes of the Considerable Lag behind the Targets of the International Development Strategy

The foregoing suggests that in the period of the eighties so far the economic situation of the developing world has evolved differently from practically all the major objectives proclaimed for the Third Development Decade. Thus, the problem concerns not simply the *extent* of the lag, but also the *direction* of fundamental economic processes in the Third World. A striking contradiction has arisen as a result of the fact that of the development decades to date, the present one, setting the boldest objectives, has had the most unsuccessful start. The growth rate of the combined GNP of the developing countries reached 5.6 per cent in the seventies. Instead of improving this, the developing world has experienced its deepest economic recession of the post-war period and—in the present world economic situation—there is little probability of a rapid and lasting recovery. It can be anticipated that the first half of the eighties will be marked by economic recession (with stagnation or depression for many developing countries) rather than by development. Taking a realistic view, there is no chance that the strength of the economic recovery (which is far from certain to occur) in the second half of the decade will be able to counterbalance the "development pause" of the recent period in the developing world thus being capable of ensuring that the most important objectives of the development decade are approached. A recent United Nations analysis confirms this view :[5]

> For the second half of the decade, many uncertainties still persist. The main uncertainty relates to investment, which

> under current circumstances is unlikely to rise sufficiently to provide for substantial acceleration of the growth rates. Though growth rates may improve somewhat, given present international policy stances, the developing countries are very unlikely to approach the 7 per cent growth target set in the International Development Strategy for the Third United Nations Development Decade before the end of the 1980s.

The causes of the failure to attain the targets can be divided into three groups : (*a*) problems related to the international development strategy itself ; (*b*) the negative trends in the international economic situation ; and (*c*) adjustment problems in the developing countries.

(*a*) Internal Problems of the International Development Strategy

First of all it must be clarified whether the development decades are suitable and effective means of influencing global development processes and in particular those in the Third World under the present world political and economic conditions. The practical experiences accumulated in connection with the previous two development decades show that the international strategy did not exert an appreciable influence on the actual course of economic development of the Third World. The "over fulfilment" of the objectives of the first development decade and the "underfulfilment" of those of the second were basically independent of the existence of the international development strategy and the actual course was determined by factors outside the strategy. The same applies to the period to date of the current development decade.

Why has the development decade had no demonstrable influence ? In the first place, the operative foreign economic policy of the overwhelming majority of governments *fails to take into account* the recommendations contained in the international strategy, and rather it reflects the "national" priorities.

Secondly, the weakest element in the international development strategies is the manner of implementation. The policy

recommendations are generally formulated in a *non-operational* way, so that governments, while endorsing the Strategy *as a whole*, can avoid commitments to implement specific measures.[6]

Thirdly, in keeping with its objectives, the international development strategy unilaterally reflects the demands and aspirations of the developing countries. For tactical political reasons most of the developed countries adopt the strategy, even if their "national" economic interests would dictate a contrary decision.

The above shortcomings are characteristic of all the development decades, including the current one. However, they do not provide sufficient explanation in themselves for the discrepancy that has arisen between the fundamental objectives of the Third Development Decade and the facts. In addition to the world economic situation and problems related to the adjustment of the developing countries to be discussed later, two internal characteristics of Third Development Decade are also responsible for this lag.

Firstly, the present international development strategy *is not based on a realistic analysis of the main long-term processes of the world economy.* The strategy did not give adequate consideration to the structural problems of a lasting nature that could already be clearly recognized in the world economy in the preparatory stage and even prior to that. Those who planned the strategy probably allowed themselves to be influenced too much by the fact that in the period from 1973 to 1980 the impetus of the economic growth of the developing countries as a whole did not flag drastically even under the impact of the considerable slowdown that occurred in the growth of the West. The reason for the latter is that during that period a number of factors (an abundant supply of credit on favourable terms, the relative openness of the markets of the advanced capitalist countries to the developing countries' rapidly growing exports of manufactured goods, the expansion of trade within the Third World, the explosive growth of oil earnings, etc.) largely counterbalanced the influence of the slowdown in growth of the industrially advanced countries. Without these temporary counterbalancing factors, the majority of the developing countries (especially the poorest of them) would have faced very serious difficulties already in

the course of the seventies. All this resulted in the adoption of irrealistic, excessively optimistic objectives that were based more on desires than on a realistic analysis of the world economic environment.

Secondly, some circles (especially the UNCTAD) criticized the International Development Startegy for the Second Development Decade because it was based on the implicit conceptual model of *growth transmission* from developed to developing countries in the framework of the existing international economic system.[7] The UN Resolution on the Third Development Strategy itself notes—in connection with the evaluation of the Second Development Decade—that "the limitations of a strategy, when conceived within the framework of the existing system of international economic relations, soon became obvious."[8] The strategy for the Third Development Decade, therefore, abandoned the previous approach and adopted the basic objectives of the new international economic order (NIEO). However, through this conceptual and substantive linking of the Strategy and the NIEO two impracticable concepts have become combined and instead of the mutual reinforcement hoped for, the opposite followed, that is, linking the strategy to the internally inconsistent concept of NIEO, which given the policy stances of the leading Northern countries has not had the chance of operational success in the course of the development decade, could not hold out hope for success.

(*b*) **Unfavourable Impacts of the World Economic Environment**

The break that can be seen in the economic development of the Third World in the beginning of the eighties can be largely attributed to the unfavourable shifts that took place in the world economy and which have imposed disproporationately serious adjustment burdens on most of the developing countries depending on the external economic environment and which, in the great majority of cases, have resulted in a forced, substantial slowdown in overall economic growth and, in many countries, even in an absolute decline in the national product. These developments can be traced back principally to the pro-

longed economic recession of the developed Western countries that further aggravated the negative processes that had already appeared earlier in world trade and the international monetary system. A number of mechanisms transmitted the economic slump of the advanced capitalist countries to the Third World in the eighties. The most important of these are the following: the lasting decline in world market demand for the products of developing countries ; the steep drop in raw materials prices from the end of 1980 and the restrictions on foreign borrowing. The unfavourable influences transmitted through these channels have become cumulative and in the majority of developing countries have weakened the factors counterbalancing the Western recession in the same way as after the first oil-price shock, leaving very limited scope for policy adjustment which generally took the form of a forced reduction of imports and, in relation with this, of internal absorption. With the halt in economic growth that inevitably occurred under the influence of such severe external shocks, at the beginning of the eighties the Third World was no longer able to exert the anticyclical influence moderating the world recession that it had been able to produce temporarily, under the impact of the above-mentioned compensatory factors, in the period from 1973 to 1980. Indeed, the unprecedented depth of the economic decline of the developing world in the first third of the eighties further aggravated the underlying recessionary forces in the world economy.

(*c*) The Adverse Demand Effects of the Slowdown in the West

It is a common knowledge that in most of the developing countries the share of exports in GNP is very high. Since around two thirds of their exports go to the industrially advanced capitalist countries, the export volume depends to a great extent on demand developments in the latter. As shown in Table 4, there has been a sharp downturn in import demand of the advanced capitalist countries under the influence of the economic recession and since 1980—in contrast with the earlier rapid growth—there has been a steady decline in absolute value in overall imports by this group of countries, appearing most

markedly *vis-a-vis* the products supplied by the developing countries.[9]

In the early eighties, the developing countries were unable to offset the demand-reducing effects of the recession in the advanced capitalist countries to anything like the extent they could in the seventies by expanding trade among themselves. In that period South-South trade was the most dynamically growing sector of the developing countries' overall foreign trade and especially the manufactures trade exhibited a strong increase. The unfavourable turn in the liquidity position of the oil-exporting and the rapidly industrializing countries in recent years considerably restricted the compensatory influence of South-South trade.

The demand-reducing effects of the Western recession have been further magnified by the tightening and increase of *protectionist measures* in a number of manufacturing industries where exports from the developing countries had previously grown most dynamically. Under the conditions of the considerable increase in unemployment caused by the economic crisis, industrial and trade policy in the developed capitalist countries was far more ready than previously to statisfy domestic demands for increased market protection for the branches most affected by developing country imports. As a result, there has been a marked deceleration (in some developed capitalist countries practically a halt) in the process of structural adjustment to the international geographical shifts in comparative advantages, which in earlier periods had ensured a steadily expanding market for exports of manufactured goods from the developing countries.

The small share of the European CMEA countries in the total exports of the developing countries (3.3 per cent in 1981) practically excluded the possibility of the former counterbalancing the demand-reducing effects of the Western recession in any substantial way, at least over the short term. Moreover, the 1981 growth of exports from the developing countries to the CMEA gave way to a 9 per cent decline in 1982.[10]

(*d*) Acceleration of the Deteriorating Trend in Terms of Trade in Non-oil Developing Countries

In the majority of developing countries the other main cause of the drop in export earnings was the downward trend in the prices of export commodities which—as Table 5 shows—was very strong in the case of non-fuel primary commodities (including agricultural products) which make up around half of the total non-oil export earnings of the developing countries. In 1981 and 1982, raw materials prices—calculated in current dollars—declined by a total of 30 per cent. The price drop was particularly strong for agricultural products.

The UNCTAD price index reflecting the evolution of free market prices of the principal raw materials exported by the developing countries was 10 per cent lower—in real terms—in September 1982 than in 1950 and the real price for many

Table 5 : Rates of Change in the Prices of Internationally Trade Commodities, 1980-1984[a]

(*Percentage*)

	1980	1981	1982	1983	1984[b]
Non-fuel primary commodities	14.7	—15.7	—15.3	5.7	7
Food	63.2	—21.4	—30.2	6.3	9
Tropical beverages	—5.9	—18.9	—4.4	5.8	4
Vegetable oils and oilseeds	14.9	—3.1	—23.0	23.4	7
Agricultural raw materials	11.2	—13.0	—12.9	7.0	8
Minerals, ores and metals	13.3	—13.4	—12.7	0	10
Crude petroleum	65.8	11.5	—5.6	—15	5
Manufactures					
Exported by developed countries	10.5	—5.1	—2.2	—5.4[c]	15
Exported by developing countries	6.4	5.4	—11.0	1.3[c]	5

[a]Expressed in U.S. dollars.

[b]Forecasts.

[c]Third quarter of 1983.

Source : *World Economic Survey 1983, op. cit.*, p. 43; *Monthly Commodity Price Bulletin*, February 1984, Geneva, UNCTAD ; *Monthly Bulletin of Statistics*, December 1983, New York, United Nations.

commodities had fallen to less than half their level of 1950. With prices at this low level a considerable proportion of commodity producers were not even recovering the production costs.[11]

Although the most important factor underlying this drastic drop in raw materials prices was the recession in the developed capitalist countries that are the main export markets, the supply of certain commodities expanded at an unsually rapid rate, resulting in a large surplus of those products (*e.g.*, wheat) whose prices depend to a greater extent on changes in supply rather than in demand. The price decline was further aggravated by the tendency of certain raw materials markets to excess supply which can be attributed to the fact that countries dependent to a great extent on exports of the given commodity attempt to offset the falling price of their product by increasing the volume of exports.

In addition, special factors also played a role in the price decline, such as the high interest rates and the drastic strengthening of the U.S. dollar from the end of 1980. The high interest rates forced users to reduce their stocks and also had a moderating influence on commodity market speculation.

The fall in raw materials prices up to the end of 1982 caused an acceleration in the deterioration of terms of trade that can be observed in the long term for the non-oil developing countries. As Table 6 shows, while the terms of trade for these countries as a whole deteriorated by an annual average of 0.2 per cent between 1973 and 1978, this rate rose to 3.3 per cent in 1979-1982. The deterioration in the terms of trade was also very substantial in the group of newly industrializing developing countries.

(*e*) **Shrinking Sources of External Financing**

Under the combined influence of the reduced volume of exports and the deterioration in terms of trade, export earnings of the developing countries declined drastically in the first two years of the eighties. During this period earnings from exports of non-fuel raw materials alone fell by around 20 billion dollars. Total export earnings of the oil-importing developing countries fell by 14 billion dollars.

As a result of the unfavourable demand implications of the recession in the advanced capitalist countries, the deterioration in terms of trade and the high interest rates, the balance-of-payments situation of the developing countries was greatly aggravated by the early eighties. As Table 7 shows, the combined balance-of-payments deficit of non-oil developing countries rose from 41.3 billion to 107.7 billion dollars between 1978 and 1981, that is, it increased more than two and a half-fold in three years. The earlier structural balance-of-payments surplus of the oil-exporting countries declined drastically and in 1982 and in 1983—due to the drop in oil prices and to the continuing substantial reduction in world market demand for oil—the combined balance of payments for this group of countries shifted to a deficit. Parallel with this process, there has been a sharp growth in the external indebtedness of the developing countries reaching 626 billion dollars in 1982 (see Table 8).

Unlike the situation in the seventies, continuous financing of the balance-of-payments deficit by relying on foreign

Table 6 : Trend in Terms of Trade, 1968-1982

(percentage average annual change)

Group of countries	1963-72	1973-78	1979-82
Developed market economies	0.3	—1.6	—2.0
All non-oil developing countries	0.3	—0.2	—3.3
Newly industrializing developing countries	0.7	—1.1	—3.7
Oil-exporting developing countries	0.5	24.1	20.1

Source : *World Economic Outlook,* Occasional Paper No. 14, Washington, 1983 ; *World Economic Survey 1983, op. cit.*, p. 39.

borrowing has become extremely difficult for the majority of developing countries—and especially for those in the most difficult situation—from 1982. In 1982 there was a break in the rising trend in the total flow of external financial resources to the developing countries, that is, the sharp decline in lending occurred precisely at a time when the developing countries had an unprecedented need for external resources. The sharp rise

in the number of developing countries struggling with debt repayment difficulties since the end of the seventies, the general deterioration in credit worthiness[12] and the high interest rates have had an unfavourable influence particularly on the volume and terms of loans extended by the commercial banks. Thus, there has been a decline in that type of lending that was most rapidly expanding in the seventies. In addition to the declining private market credits, the problem that the bulk of credits have gone to a few developing countries became even more apparent.[13] And the drop in private lending was not offset by other financial flows (loans from international financial organizations, export credits, official development aid, direct investments) because these were also characterized by a decline or inadequate increase.

With the unfavourable payments balance caused by the impossibility of increasing exports, the deteriorating terms of trade, the high debt burdens, the rapidly shrinking foreign exchange reserves and the drop in the inflow financial resources, the only path left open for economic adjustment for the majority of developing countries by 1982 became the forced reduction of imports.[14] In addition to the external constraints, in many countries economic policy, moderating the growth rate of domestic consumption and directed at cutting back the high budget deficit and dampening the chronic inflation, also acted in this direction.

From 1982 the flagging of export growth has been supplemented by substantial quantitative restrictions on imports, mutually reinforcing each other and resulting in powerful growth limitation.

The elements of the unfavourable and uncertain world economic environment discussed above had an especially strong impact on investments. The steadily rising trend in the savings and investment rate that was one of the positive characteristics of the economic adjustment of the developing countries (with the exception of the least developed ones) in the course of the seventies was broken. This made possible relatively rapid economic growth and structural diversification at a time when a contrary trend dominated in the advanced capitalist countries: the investment rate declined and structural changes slowed down.[15] In the majority of developing countries, foreign

Table 7 : Developing Countries' Payment Balances on Current Account, 1973-1983[a]

(in billions of U.S. dollars)

	1973	1975	1978	1979	1980	1981	1982	1983[b]
Oil exporting developing countries	6.7	35.4	2.2	68.6	114.3	65.0	—2.2	—27.0
Non-oil developing countries[c]	—11.3	—46.3	—41.3	—61.0	—89.0	—107.7	—86.8	—68.0

(*a*) On goods, services and private transfers.
(*b*) IMF staff projections. Figures are rounded to the nearest 0.5 billion dollars.
(*c*) Exclude data for China prior to 1977.

Source : *Annual Report 1983*, Washington, International Monetary Fund, 1983, p. 18.

Table 8 : Growth of Debt and the Debt Service Ratios of Developing Countries

	Total debt billions of dollars)	Percentage share of private money markets	Debt sevice as a percentage of total exports
Low-income developing countries			
1971	18	2	12
1975	40	7	16
1980	86	6	17
1982	110	6	23
Middle-income developing countries			
1971	24	14	16
1975	40	29	10
1980	107	38	12
1982	144	39	16
Newly industrializing developing countries			
1971	31	38	15
1975	72	60	15
1980	192	65	18
1982	266	67	24
OPEC countries			
1971	14	15	6
1975	28	25	4
1980	79	37	7
1982	106	37	14
Developing countries, total			
1971	87	20	13
1975	180	36	10
1980	465	43	12
1982	626	44	19

Note : The figures for 1982 are estimates. The figures do not contain debts repayable within one year. The per capita national product for the low-income countries was 600 dollars in 1980. Income in the middle-income countries is above 600 dollars, but this group does not contain the OPEC countries and the newly industrializing developing countries.

Source : *Development Co-operation, Efforts and Policies of the Members of the Development Assistance Committee, 1982, Review*, Paris, OECD, 1982, pp. 237 and 239.

borrowing served principally not to increase consumption but to step up investments which generally grew more rapidly than personal and public consumption. For example, in the 20 non-oil developing countries with the largest debt service payments in the early eighties the median investment ratio rose from about 19 per cent of GNP in 1968-1972 to 22 per cent in 1974-1977 and further to nearly 24 per cent in 1978-1981.[16] However, by the early eighties, under the influence of the already mentioned unfavourable foreign trade and international financial changes, the growth rate of investments slowed down significantly. At first the decline in the investment ratio could be seen only in the oil-importing countries, but by 1982 most of the oil-exporting countries also had to scale down their investment programmes. This has greatly impeded the unfolding of the adjustment process since investment activity suffered a setback precisely at a time when structural and technological adjustment to the changed world economic situation have called for pecisely the opposite.

IV. Internal Obstacles to Adjustment in the Developing Countries

It is possible to draw the conclusion from the above that the sudden slowdown in economic growth of developing countries in the first third of the eighties was essentially caused by unfavourable external factors. However, just as a favourable international economic environment does not automatically ensure success in development, so the direction and intensity of the effects of a deterioration in the external economic conditions are not independent of the national adjustment policy chosen. The approaches sometimes found in international debates attributing the critical economic situation of the developing countries solely to the sudden deterioration in the world economic environment or to the lack of a suitable internal adjustment policy are both mistaken. In our opinion, it was the external and internal conditions together in interaction (although with predominance of the former) that caused the break in the economic development of the Third World in the early eighties.

It must also be seen that it was not only the internal adjustment policy followed at the time that played a role in the unfavourable trends that unfolded in the developing countries, but also some of the delayed and cumulative effects of economic policies followed earlier.

It can now be seen with sufficient certainty, for example, that some of the oil-importing developing countries reacted to the adverse effects of external shocks that occurred in the seventies—which culminated in a sharp deterioration in terms of trade and payments balance—with *excessive foreign borrowing*. This led to a rapid accumulation of indebtedness and beyond a certain point—particularly in a steadily deteriorating world economic and monetary environment—could no longer be followed as the main form of adjustment. The excessive accumulation of debt was only partly the consequence of the low real interest rate eroding the real value of debt service and encouraging additional borrowing until the late seventies. In many developing countries, a number of shortcomings and imperfections of internal economic policy and the economic system tended to create a *systematic excess demand* for borrowing abroad.[17] In the under-developed ("repressed") domestic financial system in some of the developing countries—which is generally characterized by artificially low or negative real interest rate—a substantial part of the internal savings tends to flee the country or remains outside the monetary system. And generally serious distribution problems arise in connection with those savings that do remain on the domestic money markets. The artificially low or negative real interest rate causes an internal excess demand for credit, while exerting unfavourable influence on savings and domestic credit supply and encouraging the outflow of savings, particularly if—as is generally the case—the exchange rate of the national currency is overvalued.[18] The combined effect of these factors makes access to domestic capital difficult and the administrative rationing of credits replaces the money market mechanisms. Since only enterprises in a privileged situation have access to domestic capital through the national banking system, the tendency to seek financing abroad increases. This push towards foreign borrowing is reinforced by a further

curious monetary phenomenon which shows that a not insignificant part of the total debt in countries like Brazil, Mexico, Argentina, Chile and Peru is not spent in the borrowing countries, but exists in the form of (probably private) assets abroad. As Jan Tumlir points out:

> The mechanisms for translating the public or the banking sector's foreign borrowing into private assets held abroad by the nationals of the borrowing country are both numerous and simple.[19]

In a number of developing countries *inappropriate fiscal policies* also encourage excessive borrowing. For example, developing countries often provide excessive tax holidays to investors in "essential" industries thereby not only foregoing government revenues but also often encouraging foreign borrowing by local investors. Moreover, if a country does not have a strong taxation base, there will also be an intense pressure to borrow abroad for public investment, particularly if the government has taken over "basic industries" to bring them under control.[20] The lack of strong tax base also pushes the government toward domestic deficit financing which leads to inflation and, consequently, acts in the direction of overvaluation of the national currency, which further increases the demand for borrowing abroad. This feature of fiscal policy places the budget in an especially difficult situation when declining exports due to the world economic recession are already reducing tax revenues.

In some developing countries, there is also a correlation of foreign borrowing with the *regular operation at a serious loss of State-sector enterprises.* The financial loss of the State sector has assumed vast proportions in certain countries. In Mexico, for example, public enterprise deficit in 1982 was estimated to be in the order of 10 per cent of GNP.[21] Public enterprises' operating deficit tends to be a major determinant of the excessive overall public sector deficit in some other Latin American countries as well, the 1982 public sector deficits as a proportion of GNP reaching levels of 14 per cent in Argentina and 12 per cent in Brazil.[22] The transfer from government budgets, by which these operating deficits are covered, were

often themselves borrowed abroad. This problem is further compounded by the fact that the debtor countries, governments often feel pushed by the present economic crisis into expanding the public sector by taking over private enterprises threatened by a failure.[25]

The internal equilibrium difficulties related to the shortcomings in economic adjustment have culminated in the acceleration of the *chronic inflationary process.* As Table 9 shows, the substantial dampening of world inflation was not felt in the developing world as a whole in the beginning of the eighties. In fact, there was a considerable further increase in the already high rate of inflation and in precisely those countries hardest hit by rising prices, where the annual rate of inflation approached or exceeded 100 per cent. The rapid inflation generally leads to overvaluation of the national curreney which strengthens the excess demand for foreign borrowing. It reduces foreign exchange earnings by holding back exports while at the same time encouraging the outflow of capital and the increase of imports. A considerable number of developing countries have attempted to defend themselves from this latter influence by increasing protectionism, although experiences indicate that this, through import substitution, has been least successful in precisely those countries where the overvalued currency exerted the strongest influence in holding back exports.[24] In addition, the quantitative restraints on imports often had a harmful influence on export performance.

Experiences show that in many developing countries external borrowing as a whole was directed at export-oriented expansion of production capacity. However, in some countries, reliance on external resources and especially their effective domestic use was not given adequate consideration and, with the deteriorating external economic conditions, the foreign loans served to sustain current consumption rather than to promote investment, that is, they made it possible to defer the inevitable structural adjustment. By continuously drawing on credit, despite the unfavourable external influences (deterioration in terms of trade, declining export earnings, etc.), some developing countries attempted to maintain the earlier relatively high growth rate of GNP. However, the unfavourable possibilities for sales on external markets and often the

Table 9 : Annual Rates of Change in the Consumer Price Index in Developing Countries, 1976-1982[a]

Group of countries	1976-1980	1981	1982[b]
Developing countries	33.5	38.1	45.8
Africa	17.1	22.2	15.4
South and East Asia	9.1	13.6	7.0
Western Asia	15.4	20.2	18.0
Latin America	62.0	65.0	87.4
Others	32.0	37.5	31.0
Net energy-exporting countries	15.4	18.8	28.7
Net energy-importing countries	46.8	51.5	55.8

(*a*) The group for which data are available includes 19 net energy-exporting and 59 net energy-importing countries.
(*b*) Preliminary.

Source : *World Economic Survey 1983, op. cit.*, p 71.

inadequate domestic export incentive policy could necesarily produce only short-lived successes. With the restriction of possibilities for foreign borrowing, the application of a restrictive economic policy became unavoidable.

V. What is to Be Done?

In the first place it is important to adopt correct conclusions and measures for the International Development Strategy from the practical experiences of the first third of the eighties and from the trends that can be projected with an adequate degree of certainty up to the middle of the decade. In the light of the unfavourable trends it must be openly admitted that—even in the case of a possible favourable rate of development in the remainder of the eighties—it has become impossible to attain practically any of the main aggregate quantitative objectives of the Third Development Decade. It would be irrealistic to assume that there is a possibility for an acceleration of growth rate in the Third World to such an extent that it would offset the "development pause" in the first third of the eighties—even assuming a far more favourable international economic environment than at present. Assuming an economic recovery in the advanced capitalist countries and a continuous improve-

ment in the balance-of-payments situation of the non-oil developing countries, the International Monetary Fund forecasts an annual real GDP growth of 4.5 per cent in 1984-1986 in the latter group of countries, which would be substantially below the target set by the International Development Strategy, and the attainment of which is far from certain.[25]

When evaluating the implementation of the International Development Strategy within the framework of the United Nations in 1984, as called for by the 1980 resolution on the Strategy, attention must be concentrated first of all on *substantial modification of the original development objectives* and not on their confirmation. The latter would further weaken the credibility of the International Development Strategy and its orienting role. Only development objectives consistent with the real possibilities and far more modest than those set by the Third Development Decade, and a set of policy measures and instruments serving these objectives can have real chances of winning the active (and not merely rhetoric) support of the majority of industrial countries. Consideration could be given to whether it is necessary, in such a situation, to set the objectives in a rigid, quantified form. It should also be examined whether it is advisable to continue to link the international development strategy to the new international economic order or to global negotiations, in view of the slow progress or even a possible regression that can be foreseen in this area.[27]

The principal objective of the International Development Strategy was a substantial acceleration of the economic development of the Third World. In contrast with this, the modified strategy must be directed principally at *relaunching economic development* and at establishing the conditions for self-sustained long-term development and it must provide for corresponding measures.

It was demonstrated that the adverse shifts in the international economic and monetary environment, that is fundamentally external factors brought about the abrupt and prolonged recession in the developing world in the early eighties. It was also noted out that even the newly industrializing developing countries, generally regarded as top performers in internal adjustment policy, have been unable to avoid the serious

growth restriction effects of the world economic recession. It follows from the severe constraints imposed upon domestic adjustment capabilities that, realistically speaking, recovery from the economic recession is only possible for the majority of developing countries parallel with a global upswing.

Creation of the conditions for a lasting global recovery must thus be a focal question in the modified International Development Strategy. Current international debates are characterized by sharp polarization as regards where the recovery must start : in the North or in the South. In the present world economic situation the views that called for a flow of massive transfer of resources from North to South as the main investment for the economic revival of the developing countries and through this—*via* the intermediary of world trade—the recovery of the industrially developed countries, cannot count on more support than previously from the governments of the majority of the Western countries.[28] The concepts calling for a massive transfer of resources have been unable to convince most of the governments of the developed countries that the transfer of financial recources to the developing countries would have a more favourable influence on their own economies than the direct use of these funds at home. This policy must be taken into consideration in revising the Strategy.

A more realistic approach should regard the starting point for overcoming the world economic malaise to be the stabilization and subsequent recovery of the major Western economies, that is, the principal causes of the crisis. Calculations based on historical relationship show that an increase of one percentage point in the average rate of economic growth of the Western industrial countries over the period 1984-1986 could lead to an increase of about 3.5 percentage points in the average annual rate of growth of the value of exports of non-oil developing countries. By 1986, this would imply additional export receipts of close to 35 billion dollars per annum. Similarly, a one percentage point fall in market interest rates would, after a year or so, reduce the annual flow of interest payments of non-oil developing countries by roughly 4 billion dollars.[29] However, it is important not to be overoptimistic as regards the lasting dynamics of economic recovery which—to a different extent—is under way in most of the Western economies and, in this

connection, the strength of the pull exerted on the Third World because the conditions for a lasting and strong investment-led upswing still cannot be seen in the leading Western countries, as the recovery that is taking place (especially in the United States) from early 1983 as predominantly a consumer-led recovery based on pent-up demand, the easing of inflation and also fuelled—at least over the short term—by the exorbitant government budget deficit.

One of the important conditions for the re-establishment of economic growth is *liberalization of international trade* and the application of an industrial policy promoting more flexible and rapid structural adjustment in the developed countries. However, it must be anticipated that the protectionist pressure groups that were formed and strengthened during the recession years will not disappear automatically with economic recovery, but possibly will continue to operate in the interest of impending changes in industrial structure and especially of restricting imports of competitive manufactured goods from the developing countries. Governments, therefore, bear great responsibility in the area of firm action against protectionist drives hindering the establishment of a more open international trading system and of elaborating positive structural adjustment, which can be defined as the transformation of national patterns of production and factor allocation in a socially optimal way in order to accommodate shifts in comparative advantage as revealed by unhindered trade flows.[30] In this context, the anti-protection measures figuring in the International Development Strategy need to be reinforced.

In the majority of developing countries a lasting economic upswing cannot be achieved without *continuous enlargement and improvement of external liquidity*. In re-examining the Strategy it must be realistically taken into account that the leading Western countries, and the United States in particular, will still not give support to plans designed to bring about a vast increase in international liquidity because they maintain that this might threaten their own recovery and the successes achieved so far in curbing inflation and, moreover, might further increase the instability of the international monetary system. It is, therefore, more realistic to anticipate only a moderate increase in inter-

national liquidity in the coming years. No sharp increase can be expected either in the area of official development assistance and it is hardly likely that the targets set in the Strategy for 1985 and 1990 will be attained.

Because of the above, the payments situation of the majority of developing countries can improve fundamentally in proportion with the favourable effects generated by the recovery in the world economy. The growth of the volume of exports, together with a rise in export prices and the reduction of market interest rates, can improve the credit worthiness of a number of developing countries and facilitate their access to commercial loans. The latter is indispensable for the unfolding of the adjustment process in the developing countries. However, it must be seen that even if favourable conditions exist the expansion of the commercial lending will remain considerably below the growth rate recorded in the seventies. The structure of these loans should be improved by increasing the proportion of medium- and long-term loans since the present liquidity difficulties in many developing countries arise precisely from excessive reliance on short-term commercial loans.

In view of the fact that the efforts made to meet debt service obligations in the most heavily indebted developing countries often lead to restrictive economic policies tending to reinforce the underlying recessionary forces in the world economy, and that, furthermore, it constitutes a fundamental common international interest to prevent an acute, disruptive world debt crisis, the orderly rescheduling of the debts of the countries that find themselves in the most critical solvency situation must be continued. On the basis of the particularly unfavourable experiences of the early eighties, the appeal of the International Development Strategy for the establishment of a more stable system of exchange rates should be reinforced.

The re-examination of the International Development Strategy must reflect the fact that not only the unexpected and serious structural dislocations of the world economic environment have played a role in bringing about the unprecedented recent economic retrenchment in the Third World, but the developing countries themselves also bear partial responsibility, naturally to a differing extent from country to country. The favourable and unfavourable policy and adjustment experiences

accumulated in the different groups within the developing world in the past decade must be tapped. One of the most important of these is the need to establish a relationship between adjustment (structural policy and incentives structure) and external financing in which they are mutually reinforcing: an appropriate adjustment policy attracts external capital which in turn facilitates the advancement of the structural adjustment process. In contrast, an excessive reliance on external financial sources without the establishment of appropriate domestic adjustment mechanisms reproduces the need for foreign borrowing on an ever higher level (together with all the unfavourable macro-economic dislocations this entails) and threatens solvency. All this can only be avoided with a correctly chosen and flexible adjustment policy.

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6. This point is especially emphasized with regard to Second Development Decade in UNCTAD Secretariat, "The Conceptual Framework for a New International Development Strategy", *Trade and Department,* No. 1, 1979, pp. 84-85.
7. *Ibid.* p. 85.
8. *International Development Strategy, op. cit.,* p. 3.
9. As we have already pointed out, although the oll-exporting countries have been hardest hit by the fall in import demand, even the Third World countries most competitively exporting manufactured goods have been unable to avoid the considerable drop in the growth rate of exports.
10. *Monthly Bulletin of Statistics.* July 1983, New York, United Nations, p. Lx.
11. *UNCTAD Bulletin,* February-March, 1983, p, 1. It should be noted that the UNCTAD's combined commodity price index

covering raw materials of agricultural and mineral origin reached its lowest point in January 1983 and has shown a steadily rising trend since then. See *Monthly Commodity Price Bulletin*, February 1984.

12. In 1981 and 1982 the number of developing countries rescheduling loans was almost as many as in the previous 25 years together. See Alden W. Clausen, "Third World Debt and Global Recovery," *Aussenwirtschaft*, No. 3, 1983, p. 249.
13. At the end 1982 eight countries (Argentina, Brazil, Chile, Mexico, Venezuela, Indonesia, South Korea, Philippines) accounted for 50 per cent of the total external debt, including undisbursed, of the developing countries, Five countries (Argentina, Brazil, Mexico, Venezuela, South Korea) alone accounted for 41 per cent of the total debt. Derived from Pedro-Pablo Kuczynsky, "Latin American Debt: Act Two", *Foreign Affairs*, No. 3, 1983, p. 19.
14. *IMF Survey*, July 11, 1983, p. 195.
15. Gross capital formation as a percentage of GDP of the developing countries rose from the average of 19.6 per cent for 1967-1973 to 25.1 per cent by 1974-1978 and in this latter period the investment ratio in the developing countries became higher (by almost 3 percentage points) for the first time than that in the advanced capitalist countries. The domestic savings ratio in the GNP rose from 18.2 to 25.6 per cent between the two periods. This indicates that together with the inflow of capital domestic savings efforts also played a substantial role in attaining the relatively high growth rate of GNP. See *Independence and the Evolving North-South Relationship*, Paris, OECD, 1983, p. 60.
16. *IMF Survey*, July 11, 1983, p. 196.
17. Helen Hughes, "Capital Needs of the Developing Countries in the Eigbties," paper presented at the Seventh World Congress of the International Economic Association, Madrid, September 5-9, 1983, p. 12.
18. Negative real interest rates are fairly general in the developing countries. For example, between July 1980 and June 1981 the interest rate was—16 per cent in Brazil,—48.2 per cent in Ghana, —5.9 per cent in India,—4.9 per cent in Kenya,—1.3 per cent in South Korea,—3.1 per cent in Malaysia,—9.5 per cent in Mexico,— 2.6 per cent in Pakistan and—4.8 per cent in Venezuela. See Anthony Lanyi and Rusdu Saracoglu, "The Importance of Interest Rates in Developing Economics," *Finance and Development*, June 1983, p. 21.
19. Jan Tumlir, "The World Economy Today : Crisis or a New Beginning?", *National Westminster Bank Quarterly Review*, No. 8, 1983, pp. 31-32.
20. John R. Freeman, "The Politics of Indebted Growth," paper presented at the National Science Foundation Conference on Inter-

national Stability and Co-operation, Minneapolis, Minnesota, October 14-15, 1982. Cited in Helen Hughes, *op. cit.*, p. 12.
21. Jan Tumlir, *op. cit.*, pp. 31-32.
22. Pedro-Pablo Kuczynky, *op. cit.*, p. 22.
23. Jan Tumlir, *op. cit.*, p. 32.
24. Bela Balassa and Laura Tyson, "Adjustment to External Shocks in Socialist and Private Market Economies", paper presented at the Seventh World Congress of the International Economic Association, Madrid, September 5-9, 1983, p. 20.
25. *IMF Survey*, July 11, 1983, p. 197.
26. In this context, it is to be regretted that the position paper submitted by the Group of 77 to the UNCTAD's Trade and Development Board on the review and appraisal of the implementation of the Strategy, departs from reality when, as of early 1984, states that "Most of the major goals and objectives of the Strategy have a long-term perspective which must remain unchanged and should not, therefore, be affected by the vicissitudes in the development of the world economy and world economic relations." While acknowledging that in the first third of the eighties the growth and development in many developing countries have come to a standstill and in a fairly good number of them have suffered a serious setback, the position paper inconsistently states that "The attainment of (the Strategy's) quantitative goals and objectives is quite within the reach of the countries concerned and of the international community, if appropriate measures are taken." See *Report of the High-level Intergovernmental Group of Officials on the Review and Appraisal of the Implementation of the International Development Strategy for the Third United Nations Development Decade,* Geneva, UNCTAD, TD/B/984/Add. 1, 22 February 1984, pp. 18-19.
27. In view of the fact that the efforts that have been made since 1980 to achieve global negotiations within the framework of the UN have failed, and that no favourable change can be expected in the position of the "North" (especially of the United States) in this connection, a number of experts, generally in sympathy with the demand of the developing countries, have recommended the temporary suspension of the attempts at launching of a constructive, joint North-South programme to explore the possible implementation in the medium run of several promising proposals for improved and more equitable global management of the world economy). For details, see *Rethinking Global Negotiations. A Statement on North-South Economic Strategy.* By Academics and Policymakers from Several Countries, North and South, New York, Columbia, University, International Economics Research Centre, 1983, p. 7.
28. The best known of these resource transfer conceptions were elaborated by an international commission headed by Willy Brandt.

See *North-South : A Programme for Survival,* London, Pan Books, 1980; *Common Crisis North-South : Cooperation for World Recovery,* London and Sydney, Pan Books, 1983.

29. *IMF Survey,* July 11, 1983, p. 196.
30. *Protectionism, Trade Relations and Structural Adjustment.* Geneva, UNCTAD, TD/274, 1983.

25

Interdependence, Structural Changes and Conflicts in the World Economy

OLEG BOGOMOLOV

I

Mankind is today experiencing probably the most complicated and crucial period of its history. Never before has it been faced with such a terrible challenge : the danger of nuclear destruction threatens it, the arms race has reached an unprecedented scale, the world economy is seriously ailing the consequences which are difficult to forecast. International stability—political, military and economic—is being undermined by continuing conflicts and clashes. The unresolved global problems—food, energy, raw materials, ecological, etc.—are causing serious concern. Scholars and politicians are even raising the question of the prospects of mankind's survival. That is why it is so important to find the right ways which would enable the world community to overcome the present dangerous and critical situation, including that in the economic sphere.

Economic life in the modern world is internationalized to a far greater extent than ever before. The degree of this internationalization is such that the future of every country is connected in one way or another with the normal development of international economic relations, with elimination of the conflicts and contradictions undermining the world economy.

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The economic interdependence of the countries of the world (Internationalization of the economic life according to the Marxist terminology) finds its expression in the existence and functioning of the world economy. Being a reality of our time, it represents a complicated and far from homogeneous system of relations. With two different social systems existing on the same planet the world economy represents a contradictory, though integrated system. International economic relations of different social types are interwoven in it, the legacy of the colonial past still makes itself felt, contradictory national interests clash, diverse economic and political forces still operate.

For all its complexity and discrepancy the world economy is a continuously developing organism, though its present state and prospects give rise to deep anxiety. The difference in socio-economic systems and ideologies is not, as has been demonstrated by history, an insurmountable obstacle to joint solution of international problems by socialist and capitalist States, to mutually beneficial trade and co-operation. The difference in the sizes of countries and in the levels of their socio-economic and cultural development, the lack of coincidence in the aims of their international policy, geographical isolation, though adding to the complexity of the problems of international relations, they cannot stop the process of the internationalization of economic life. On the contrary, the variety of national conditions favours, in general, international contracts and exchanges.

The international division of labour and stemming from it the interdependence and mutually complementary character of relations between countries now play an every growing role in the socio-economic progress of humanity.

The scientific and technological revolution has brought about, in addition to the traditional factors of the international division of labour, new ones conditioned by the high concentration and technical sophistication of modern production and its growing science-intensity. It has accelerated the progress of internationalization of economic life, has given it a qualitatively new significance and turned science into an independent factor of growth in the productivity of labour.

The range of industrial products, their technological

sophistication, especially in mechanical engineering, electronics and chemistry are so great, while the need to reduce costs on the basis of the concentration and increased scale of mass production is so imperative that even the largest and most developed States cannot afford efficient production over a full-scale assortment. It is also limited both by increased expenditure on R & D and effective practical implementation of their results. All this necessitates international specialization and co-operation in production and development of science and technology, thus turning them into an indispensable condition for improving the efficiency of economic activity.

In this connection it should be noted that international economic exchange is growing faster than the production of goods and services. The growth rates of international trade during the last 40 years have exceeded by 1.5 times those of the GNP of all countries of the world. A still greater portion of the output in each country is intended not for consumption within its own boundaries, but for international exchange. Some economists forecast that by the year 2000 about one third of the entire world production would be involved in international exchange as compared to 20-22 per cent at present.[1]

The policy of peaceful co-existence of States with different social systems, the shift from confrontation of *détente* favourably influenced the internationalization of the world economic life, especially during the 70s. The achievements of political independence by the former colonies and their successes in the development of the national economy and economic decolonization have contributed to a higher share of these countries in the world economy, as well as to their more active economic interaction.

As a result, the fabric of economic interdependence of individual countries has become ever more tightly interwoven and the world economy is acquiring essentially new functions.

The many economic problems worrying people in various countries call for an international pooling of efforts if they are to be solved and require the co-ordination of national policies and restructuring of the world economy on democratic principles.

The UN and its specialized institutions can play an important role in this area.

The transformation of the food, energy and raw materials problem from a national into a universal problem clearly indicates the need for closer interaction of States and nations. As a result of the uneven distribution of fuel (especially petroleum) and mineral resources among different countries, the mechanism of the world economy is now facing the extremely difficult problem of satisfying the growing needs of countries lacking self-sufficiency.

The industrially developed capitalist countries possess over 40 per cent of the known reserves of mineral raw materials, but the distribution of these resources among the major nations is very uneven. Japan satisfies about 90 per cent and the U.S. 10-15 per cent of its needs by imports, respectively. Nearly half of the energy consumption by the EEC countries is covered by imports (especially petroleum) from third countries. About 40 per cent of the USA's needs of petroleum is satisfied by imports.[2]

In petroleum, gas, electric power, coal, iron ore and in some other important raw materials the CMEA countries cover about 95 per cent of their needs by their own production and co-operation. This is their evident advantage over the European Economic Community and it is especially appreciable during the periods of the malfunctioning of the world economy as was the case in 1973-74.

At the same time, natural resources are unevenly distributed also within the CMEA countries. The grater part of the resources of petroleum, gas, iron ore, ores of rare and nonferrous metals is located in the USSR who meets about 80 per cent of the import requirements of its CMEA partners in petroleum and petroleum products, and to an even greater extent in gas and iron ore. Besides, the USSR exports oil, gas and some kinds of mineral raw materials to the world market. The CMEA partners of the USSR are able to satisfy 70-75 per cent of their energy needs on their own.[3]

The industrial potential of Western Europe especially heavily depends on the Middle Eastern and African oil, on African chromium, manganese, platinum, cobalt, copper and vanadium. Of the 95 raw materials considered essential to any modern

developed industry the U.S. in the mid-70s depended on imports of 68 items including total dependence in the case of 15 (diamonds, bismuth, cobalt, tin, mica, etc.).[4]

Any shortage of oil, gas and coal could have, according to some Western experts, drastic consequences for the industrial powers of the West. The same holds true, in the opinion of certain specialists, of plantinum, cobalt, tin, chromium, copper, silver, nickel, tungsten.[5] Here it should be noted that the Soviet Union is one of the few suppliers of platinum and other platinum group metals, gold and manganese to the world market.

The dependence of the U.S., Western Europe and Japan on imports of mineral raw materials and fuels during the post-war period increased not only because of the lack of exhaustion of geological reserves, but because of a rapid growth of consumption and higher costs of domestic extraction as well. The rationalization of consumption and technological innovations aimed at replacing especially scarce materials and minerals and fuller utilization of domestic resources have as yet not slowed down the trend towards increasing import dependence.

If one adds to this the increased relative prices of mineral raw materials (particularly petroleum) over the past decade, the unreliability of long-term supply of raw materials, alarming forecasts of approaching exhaustion of certain kinds of natural resources, it comes clear that the raw-material sector is becoming one of the least reliable units in the industrial structure of the Western countries. In this unit, just as in a number of others, their economic welfare is inseparable from the state of affairs in the world economy as a whole.

The threat of a raw-materials and energy crisis is not past although it is less acute now. The fight for access to markets of mineral raw materials is intensifying. In view of the exhaustion of domestic natural resources and in order to preserve the habitual way of life, some prominent Western strategists consider it necessary to ensure "at all costs" a "non-stop inflow" of these resources from developing countrie.[6]

But today one can no longer set hopes on arguments of force alone. Only voluntary equitable and mutually beneficial co-operation of all groups of States, co-ordination of economic policies can ensure a way out of the growing difficulties. In

this respect, the CMEA co-operation based on coordination of long-term plans provides an example deserving attention.

The complication of the world energy and raw-materials situation has forced the industrially developed capitalist States of Europe to diversify their imports of energy sources, including increased imports from the CMEA countries. Promising, for example, are Soviet natural gas and Polish coal supplies. The West's interest in new reliable raw-materials and fuel resources, the CMEA countries demand for imported modern equipment and technology, including for the power and raw-materials industries, create the necessary pre-conditions for mutually beneficial exchange.

Other urgent problems confronting mankind are protection of the environment, using the achievements of technological progress for the welfare of all nations, combating dangerous diseases, rational utilization of the World Ocean resources. As the course of events shows, humanity can cope with these problems only with closer interaction between nations.

Hence, the viewpoint that the prospects of the nations are closely linked with their greater interdependence,[7] with internationalization of economic life is becoming an ever more unanimous one.[8] This tenet has long since been recognized by Marxism which, however, draws political conclusions entirely different from those of bourgeois science.

Socialist, particulary Soviet science, regards the internationalization and interdependence of economic life as one of the main lines of development of the productive forces and strengthening of peace and co-operation among nations. Socialist diplomacy, therefore, comes out in favour of broad, comprehensive development of economic relations between nations, including countries of different socio-economic systems, based on the principles of equality, respect of national sovereignty, mutual benefit, non-discrimination and consistent reshaping of them on a just and democratic basis. These principles proclaimed already in the first days of the Soviet power are now specified in the Peace Programmes adopted by the 24th and 25th Congress of the CPSU, in the activities of the Council for Mutual Economic Assistance. They are also reflected in the Final Act of the Helsinki Conference and in a number of UN resolutions and recommendations.

However, political conclusions causing perplexity and even alarm are drawn in the West from the fact of economic interdependence. Many politicians fail to link greater interdependence with the necessity of strengthening national sovereignty and recognition of the equality of all States of the world, with further democratization of international relations. On the contrary, they rely on the use of force in these relations, on preservation of the economic exploitation by the developed States, though in more flexible and subtle forms than in the past. In hard times the "ruin your neighbour" policy is more and more frequently pursued to keep one's benefits intact.[9] In short, attempts are being made to substitute the obsolete System of unilateral *dependence* for objectively growing economic *interdependence*. Hence the virtual non-acceptance of the concept of a new international economic order by the influential circles in the West.

The objective logic of the development of the international division of labour cannot, however, be subordinated with impunity to the logic of military and political rivalry ; neither can the world market be turned into an arena of commercial expansion and economic war. Was not it the incompatibility with the objective economic laws that led to the eventual failure of the attempts to isolate socialism in the world economy, sorround the socialist States with a technological cordon, to subject them to a credit blockade ? Is not that why exploitative relations must sooner or later give way to relations of true partnership ?

II

The modern world is now experiencing major shifts in the structure and geography of production, in its technological basis, and in the disposition of economic and political forces. They constitute decisive factors shaping the prospects of the world economy.

In world industrial production the share of the socialist countries has increased to more than one third, though there was no corresponding growth of their share in world trade. The developing countries now account for about 9 per cent of world industrial output, while their share in world exports

(24 per cent in 1960, 20 per cent in 1970) tends to decline in real terms without taking into account the price growth of petroleum exports.[10]

While trade between the developed countries and colonies (now developing States) played the leading role before the Second World War, trade among the developed countries of the West has been growing most dynamically during the post-war period and now it accounts for about 60 per cent of their total foreign trade.

During the post-war years major shifts took place in the balance of the economic and export potentials of the United States, Western Europe and Japan. As a result, the monocentrism of the world capitalist economy of the first post-war years gave way to the rivalry of the three centres of the Western world of comparable economic strength.

The world economy including now 160 independent States is becoming ever more polycentric.[11] A growing number of countries liberated from colonial dependence are building-up a sufficient political, economic and export potential in order to play a more or less significant role in the world economy. The very fact of the simultaneous interaction of so many States and economic forces is already an important structural change in the world economy.

The most striking changes are observed in the sphere of science and technology and not without consequences for the world economy. Electronics, raw materials, nuclear industry, robots and manipulators, space technology and aircraft engineering, the most sensitive and super-precision control and measurement instrumentation, biotechnology are revolutionizing production, ensuring a higher level of labour productivity and opening up broad opportunities for the growth of public welfare. The most refined and, at the same time, capital and labour consuming product of scientific and technical creativity—software—is acquiring special importance in both the national and the world economy.

While the production and export of "software" in the capitalist world is concentrated in the leading powers—the United States, Japan, the FRG, Great Britain, France—many of their traditional technologies which, in addition, are either on the decline or harmful for the environment, are gradually

shifted to abroad, including the developing States. These are the textile industry, metallurgy, chemicals, assembling of various mechanical or electronic components, etc. According to an estimate by 1990 the developing countries will account for 36-38 per cent of the world export of clothes, 80 per cent of textiles, 25-27 per cent of leather goods and footwear, and 7-10 per cent of mass metal articles.[12]

Unfortunately, the process of transfer of a number of production capacities from the developed capitalist countries to the developing States is haphazard and does not take into account the interests of the latter. It proceeds on the basis of partial decisions of individual TNCs without co-operation between the governments concerned. As a result, the structural changes observed in the economy of the developed countries and those in the economy of the developing countries are in no way linked with each other. This hinders rational division of labour, leaves its formation to the play of market forces and strengthens the new protectionism.[13]

The urge to make scientific and technological progress the common property of mankind is natural. Meanwhile, the results of the scientific and technological revolution are not equally distributed. The increasing concentration of the modern scientific and technological potential within the industrially developed capitalist countries gives them greater advantages. The large-scale "brain-drain" from the developing States adds still more to the unilateral appropriation of the main achievements of modern scientific and technological progress by a few Western countries.

Socialism removes the social obstacles in the way of effective diffusion of the results achieved by scientific and technological progress to the benefit of all members of the society and of the whole of mankind. The CMEA countries have achieved considerable success in the solution of key scientific and technological problems made possible, to a decisive extent, by their co-operation. However, unsolved problems still remain in this area such as the inadequacy and limited specialization of scientific and technological capacities of individual countries, the imperfection of their national and integration mechanisms of scientific and technological progress, dispersal of the available resources, etc., which affect the general technological level

of the entire CMEA community. A number of programmes aimed at bringing about large-scale positive changes in the scientific and technological basis of the economy are presently under way in the CMEA countries.

The infrastructure of the world economy, *i.e.*, transportation and communication systems, information processing and storage, financing and banking is far from being developed in the best possible way. The structural changes in this particular area result in an increasing concentration of this infrastructure in the hands of the West. Monopolizing these intermediary functions the transnational corporations acquire enormous power both over production and consumption especially to the detriment of the interests of the manufacturers in the developing countries. Today these corporations control more than one third of the world trade, sell more than 70 per cent of raw materials and a major part of the manufactured products exported by the developing countries.[14]

Up till now the structural changes in the world economy have intensified the conflicting character of its development. The mechanism of the world economy is clearly not upto the new situation being shaped by the ongoing changes.

III

The present state of the world capitalist economy cannot be regarded other than one of crisis. Mankind now faces an explosive combination of both national and international crisis factors. The army of unemployed in the developed countries of the West number 33 million or 10 per cent of the labour force.

The cyclical crises of the capitalist economy have become intertwined with structural ones. The decline of economic activity in the leading capitalist countries has spread to the world trade as well, the annual growth rate of which dropped from 6.5 per cent in 1976-1979 to 1.5 per cent in 1980 and to zero or even negative values in 1981-1983. In 1982, its volume corresponded to the level of 1979.[15]

The inflation process has spilled over national frontiers and engulfed the entire world trade. The change in price proportions has aggravated the crisis of the balance of payments of

most of the developing States and of many countries in the West and has increased the instability of the entire world monetary and credit system.

It is not so much under the impact of the powerful machinery and vast scale of industrial production, but rather as a result of the uncontrolled behaviour and selfishness of the transnational corporations that the non-renewable natural resources are being plundered and the Earth's biological wealth is being lost. The interests of furture generations are sacrificed to current benefits.

The threat of the destruction of the environment is heightened by the continuing arms race. One cannot but agree with Willy Brandt who said :

> We can arms ourselves to death without waging any war : death will come because of the overstraining of our economy and our criminal unwillingness to take care of the future.[16]

The role played in the arms race by the economically most powerful country of the world is well known.

The present crisis, the most acute one in the post-war period, originated in capitalist countries, but it has hit hardest the developing States. The economic interdependence has forced them to suffer from somebody else's illness. Their economic growth rates have dropped sharply, the number of fully unemployed or part-time employed in these countries reaches 400-500 million, *i.e.*, up to one third of the labour force.

The deepening conflict between the industrially developed countries of the West and the developing world is one of the most acute contradictions of the world economy. The basic benefits of modern civilization and technological progress are shared by a few leading capitalist States, but their costs are largely borne by the economically less-developed nations.

The artificially depressed prices for fuels and raw materials from the developing countries over decades were one of the major factors of high growth rates of the economy of the Western countries, the modernization of their fuel-and-raw-material complex and reducing production costs. The rise in prices for oil by the OPEC countries has not resulted in the

necessary correction of the terms of trade between industrial and developing countries. On the contrary, it have been the petroleum-importing countries of the third world that have borne the brunt of the adjustment. The industrial powers have compensated their losses to a considerable extent as a result of a faster growth of prices for the commodities exported to the developing countries, the recycling of petrodollars deposited at the Western banks to these countries at inflated interest rates and artificially increased exchange rate of the U.S. dollar.

The international financial mechanisms have become a powerful lever for the redistribution of profits in the world economy in favour of the rich countries. The unfavourable terms of trade for the products export from the non-oil exporting developing countries result in a high deficit in the balance of payments which increased from 24 billion dollars in 1974 to 77.5 billion dollars in 1982.[17]

An important means of exploitation of the developing countries is the growing penetration of foreign capital into their economy. Foreign capital today controls a considerable portion of the industrial production and exports of the developing States.[18] The strongest positions are held by thet ransnationals (TNCs), the American in the first place. Their scale and line of action are such that they frequently affect not only the economy of the developing countries, but their internal political affairs and foreign policy as well.

The direct capital investments by the transnational corporations in the developing countries continue to generate immense profits. Every dollar invested in the developing countries, taken together, gave the transnationals about $2.2 in 1970-1980. The American TNCs alone in 1970-1979 invested in the Third World countries $11.4 billion and made profits of $48.7 billion on their investments in those countries over the same period.[19]

The unbalanced character of international exchange, particularly acute in relations between the developed capitalist countries and the Third World is probably the main reason for the serious crisis in the international monetary and financial relations. To this should be added a chronic inflation extending to the world market, the dependence of the international system

of transactions of the U.S. national currency and, hence, on the peculiarities of the monetary policy of that country.

Already in the conditions of the recent abundance of euro-and petrodollars which was impossible to imagine before the onset of the oil crisis a fierce struggle began between Western commercial banks. Vying with each other, they tried to grant longterm loans to developing countries, particularly to the relatively more developed countries of Latin America, as well as to some socialist States. The external debt of the developing States amounted to the astronomic figure of $626 billion by the end of 1982.[20] In that same year the debt service on these loans swallowed upto 45 per cent of the entire income of the developing countries obtained from exports of goods and services. These figures, in the opinion of many experts, portend a crisis. The debtor countries are unable to secure enough revenues to meet their present obligations, in any event not until the slump ends, and in all probability, for a long time afterwards.[21]

Their response to the threateningly rising debt is mainly to reduce internal consumption and imports, to try to boost exports which, however, in the conditions of falling prices of fuels and raw materials and general strengthening of protectionism is counter-productive. The limitation of imports adversely affects economic growth and, hence, the export capacities of the debtor countries.

An equally dangerous situation menaces the creditor countries. The developing countries account for more than 40 per cent of exports by the industrially developed countries of the West and for about one third of the U.S. exports. For the U.S. it is more than its total exports to the EEC and Japan.[22] The creditors cannot, therefore, allow the bankruptcy of their debtors without risking not only a bank catastrophe, but a deepening decline of their own production as well. Western politicians are concerned about the possibility that "the debt crisis will result eventually in the emergence of radical anti-West governments" and the financial problems will be pushed into the background by political consequences.[23]

That is why the West endeavours to work out large-scale "rescue" operations. The measures taken can, at best, delay but not avert the inevitable crisis, since they do not envisage

opening the markets of the creditor countries for the goods from the debtor countries, and such a rearrange of the mechanisms of the world economy which would put an end to the economic exploitation of the developing countries.

The conflict character of world economic development is to a great extent due to the stepped up arms race. The incompatibility of the arms race and the normal functioning of the world economy has never before been so patently manifested. The world military expenditures in 1982 amounted to over $600 billion, in other words, this enormous sum, comparable with the external debt accumulated over many years by the developing countries, has been diverted from productive utilization of the most valuable material and intellectual resources.

As a result of the international tension provoked by the bellicose policies of the most reactionary circles in the West, the determination to protect their neocolonialist interests in the Third World and the internal contradictions in that world, the developing States are more and more being involved in the arms race. More than 30 of them produce their own weapons. The trade in arms and ammunition is growing to the detriment of traditional exchanges. In 1980 the developing countries imported arms to the sum of $20 billion.[25]

The stockpiling of lethal weapons in the world, which already has an overall capacity sufficient to destroy mankind many times over, lays a heavy burden not only on the national economies, but on the entire world economy as well. To ensure the full use of the advantages of the international division of labour and co-operation to the benefit of every nation, to cope with the global economic problems, *détente* and agreement on arms limitation and their reduction are important today as never before.

The stake in the arms race, sanctions and embargoes as means of economically enfeebling the adversary is reckless because it kindles an explosive situation which can prove fatal for all mankind. Besides, it is untenable because of the economic interdependence of the modern world from which it follows that one cannot with impunity, without risking great losses to oneself, undermine the established system of mutually beneficial relations with the socialist countries.

The participation of the socialist countries in the world

economy takes place under the conditions of economic competition and confrontation of two different social systems. This is the objective form of co-existence of socialism and capitalism. It would be wrong, however, to turn the co-existence and competition into an economic war which certain forces in the West are trying to impose on the socialist countries.

The business relations of the socialist countries with the non-socialist world today cannot be considered as being normal. The crisis of the world economy painfully affects them. Of course, the planned system of the economy protects the socialist countries from the random play of forces in the world economy. But they cannot be fully insensitive to its changes. Nowadays the latter hinder exports of raw materials, foodstuffs, finished commodities from the socialist countries to the Western markets, and negatively affect the repayment of debts. The crisis creates a general climate that facilitates provocative actions on the part of certain circles in the West in respect of the socialist countries. The latter annually lose tens and sometimes hundreds of millions of dollars in their transactions with the non-socialist world because of the unfavourable terms of trade, inflated interest rates, devaluation of capitalist currencies, protectionism, discriminating trade and credit policies of the West. Their interests suffer, to a certain extent, from restrictions imposed on acquisition of the latest technology and equipment. All this affects the CMEA countries, especially as many of them have their own problems connected with the transition of the economy from a predominantly extensive to an intensive way of development. The socialist States, consequently, come out for normalization of the world economic relations, including East-West relations.

IV

The crisis of the world economy is explained, of course, by many reasons among which are the arms race, the primitive concepts of economic policy taken from the times of early capitalism. But the blame for the economic troubles besetting the world community must be placed, first of all, on the exploitative relations prevailing in it, the irresponsible

selfish behaviour of the capitalist States and transnational corporations.

The state of affairs in the world of socialism, its constructive foreign and economic policies have a beneficial effect on world economic relations, show an example of the solution of a number of difficult problems. During 1970-1982 the gross national income of the CMEA countries increased by 1.7 times compared to 1.3 time increase for the EEC. This advantage in growth rates is the result of planned management of the economy. But one cannot but take into consideration the as yet relatively small share (about 10 per cent) of the socialist countries in world trade, the share of exchange between the socialist and non-socialist world not exceeding 4 per cent.[26]

The socialist countries are not interested in world economic chaos. On the contrary, they are interested in stability of the world economy, in constructive, mutually beneficial economic relations between all States irrespective of their social system. It is from this standpoint that they approach their paticipation in the world economy and the solution of its difficult problems. It is time to understand that today no viable world economic system is conceivable without the constructive participation of the socialist countries, without consideration of their interests and experience in all areas.

Hardly anybody has the prescription for effective treatment of the grave ailments from which the capitalist economy is suffering. They apparently require appropriate changes in the structure of socio-economic relations both inside the countries and between them. However, many political and economic structures still remain conservative, thus retaining conditions that engender crisis.

The drive for a new international economic order opens up the opportunity for democratization of the world economy and for removing a number of its internal conflicts. But NIEO encounters powerful opposition. This is due to the lack of mutual understanding, selfishness, unreasonable claims on the one hand, and the tremendous technological, economic, military and political power of those whom the *status quo* suits on the other.

By their economic co-operation within the CMEA, based on coordination of five-year national economic plans, on principles

of equality and fraternal solidarity, as well as by their co-operation with the developing countries which excludes unilateral benefits, the socialist countries demonstrate an example of international economic relations to which the future may belong. Significant in this respect is the evaluation given by the UNCTAD secretariat:

> A co-ordinated economic interaction of national economic complexes of the socialist countries ensured stable markets, substantially eased the negative effect of the external factors and contributed to a dynamic development of the intra-CMEA trade which is a planned and stable element of their common commercial turnover. At the present time the trade within the CMEA framework accounts for about 50 per cent of the turnover of the member-countries.[27]

The mutual trade of the CMEA countries increased by 29.7 per cent in 1976-1980 and by 10 per cent during 1979-1982. It should be noted that this dynamics took place against the background of reduction in the physical volume of the world capitalist trade in the latter period.

The trade between the socialist and developing countries remains one of the most dynamic components of the international trade. The share of developing countries in the foreign trade of the CMEA countries grew from 14.2 per cent in 1976 to 18.1 per cent in 1981.[28] The CMEA countries seek to expand economic, scientific and technological co-operation with the developing States on the sound basis of mutually beneficial division of labour. With that end in view, they render broad economic assistance to the developing States in the form of loans on favourable terms, in training local personnel, transfer of up-to-date technology, etc. The total volume of Soviet economic assistance to the developing States, debt service and other payments related to this assistance being deduced, amounted to about 30 billion roubles over 1976-1980. In terms of percentage of the Soviet GNP this net economic assistance amounted on an annual average basis, about 1 per cent (0.9 in 1976, 1.3 per cent in 1981).[29]

Being fully aware of the fact that the intensification of the crisis in conditions of conservation of the obsolete mechanisms

of the world economy threatens it with final collapse, the CMEA countries call for global negotiations on the most urgent problems of the world economy. They take a constructive stand on the issues concerning realization of the proposals contained in the "second basket" of the Helsinki Security Conference. Understanding the international character of scientific and technological progress, the CMEA countries are interested in reciprocal scientific and technological co-operation with the West, mutually facilitated access to the markets of advanced technology. At the same time, the capitalist States holding key positions in some branches of science and technology frequently try to make use of their advance not only for securing economic advantages, but for political pressure on the socialist and other countries. This is especially characteristic of the United States and of some other NATO countries. A case in point is the restrictions enforced by the USA and supported by some other Western countries on the delivery of computers, oil-drilling and other types of modern equipment to the USSR, their attempts to expand the embargo on export of high-technology products to the socialist countries, to internationalize the system of such discrimination measures.

While strengthening their joint technological and economic potential, the CMEA countries by no means seek to isolate themselves from the rest of the world in the sphere of science and technology. The point is to be sufficiently self-sustained in the vitally important areas of scientific and technological progress so as to be able to withstand, if necessary, blackmail and pressure.

The integration within the CMEA framework, while enhancing economic, scientific and technological capacities of its member States, also extends the opportunities of their commercial and economic relations with both developing countries and those industrially developed States which are ready to co-operate on the principles of equality and mutual benefit. The foreign economic relations of the socialist countries serve as a stabilizing factor in the world economy.

Now when the world trade has to contend with growing protectionism, when means of pressure on competitors are frequently employed in violation of rules of normal practice, it is urgent to elaborate measures of confidence between

different States just as is being done in the military and political sphere. These could be, for example, preliminary consultations of the parties concerned regarding the commercial and financial measures planned by certain countries which might be prejudicial to the normal functioning of the world economy. It would also be useful to work out a reform of the international monetary system on democratic principles, provide a legal basis for normalization of relations between the two major international integration groups—CMEA and EEC.

Despite the differences in interests and social system, it is necessary to find joint optimal solutions for improving the functioning of the world economy, for the creation of favourable conditions for commercial exchanges, for the national utilization of production capacities, manpower, raw materials and energy resources of mankind.

All this, of course, requires a peaceful situation on our planet, a return to the policy of *détente* and mutually beneficial co-operation in East-West relations, elimination of the military threat, stopping the arms race which lays an unprecedented burden on the world economy. The achievement of real progress in this area is one of the top priority tasks of the Soviet foreign policy. The recent Soviet initiatives on a radical lowering of the threshold of military confrontation in Europe and in the whole world allow for reasonable compromises in the solution of the key problem of our times—the preservation and strengthening of peace.

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Economic Crisis and the Transition from Capitalism

SURENDRA J PATEL

Introduction

The death of Marx and the birth of Keynes are linked by chronology—less than three months apart in the spring of 1883. One may recall here another illustrious parallel—the death of Galileo and the birth of Newton in 1642. Such chronological links would generally be matters of indifference, since each year is crowded by the deaths and births of so many millions of ordinary mortals. But when the pairs are as eminent as the two mentioned above, they inevitably become the centre of attention. They evoke a search for continuity in evolution of their thoughts and a comparison of their contributions. As a minimum, they mercifully facilitate the celebration of centenaries.

Galileo and Newton changed mankind's perception of the physical world. The work initiated by Galileo was finished in a majestic fashion by Newton : the link in the evolution of their contributions is, therefore, indisputable. Marx and Keynes had much to say on the anatomy of our social institutions, their interrelationships, their functioning and their disorders, and the forces that work to reshape these over time. But the linkage in their contributions is much weaker than in the case of Galileo

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and Newton. Their personalities, the scope of their concerns, the relative merits of their contributions are so vastly different that any discussion of their continuity, or even a comparison, could only turn out to be superfluous, if not patently absurd. Both of them concerned themselves with industrial capitalism, particularly its evolution (Marx) and its management (Keynes). But by any standards, Marx would have to be considered a system-builder, a man of the epoch (the Industrial Revolution), and Keynes a man of a century (the twentieth or a part of it). Schumpeter, although born in 1883, would in comparison occupy a much smaller place in the history of economic thought.[2]

This Chapter does not, therefore, set itself the task of comparing the overall contributions of Marx and Keynes ; nor does it pick out one or other piece of their thought and examine its pertinence in depth. Instead it aims at reviewing the spread of the Industrial Revolution, the central concern of both of them, its ups and downs, and its portents for the future, including for the Third World. It begins with the current economic crisis followed by a presentation of the broad sweep of the two-century spread of industrialisation and emergence of transitional forms. It concludes with an attempt to draw an image of the world we are now in, so that, standing on its shoulders, we may peep into the distant horizon. This scheme has a certain chronological disorder, but not, I hope, a logical one.

I. The Current Economic Crisis and its Epicentre

The current economic crisis is the common concern everywhere. It has been characterised, perhaps too hastily by West-centred scholars, as a *world* economic crisis. Some have rushed in to call it, even less legitimately, the gravest crisis of the developing countries. Both these are terminological traps, as will be shown subsequently. They impair an adequate world view, particularly of its variety, distort reality and misdirect the search for ways out of it.

True enough, it is a crisis affecting the whole world. All countries—the capitalist, socialist, and mixed economies—have been influenced by it. And yet, even a cursory glance at its

widely varying impact on different countries should counsel care in characterisation. There is a need to locate the epicentre of the crisis, the area of its spread, and the intensity of its impact on the peripheral countries in order to appreciate the future course of events.

The epicentre of the economic crisis lies in the capitalist countries. It is the legitimate offspring of the structural evolution of capitalist economies, and of the failure of their policies to handle their problems. It has been in the making throughout the post-war period. Its tremors have travelled far and wide, affecting the Third World countries, some of them indeed very gravely. The fall in the growth rates of even some of the socialist countries also points to the impact of these tremors, depending in part upon the degree of their external dependence and in part on the dynamics of their own internal development.

The intensity of the impact has varied widely from country to country and from sector to sector. As in the case of an earthquake, the intensity of the impact of the tremors has reflected the degree of vulnerability or immunity of the country and the sector concerned. The search for the epicentre of the crisis, the areas and the degrees of its impact and its future course is, therefore, not a banal debating point. Their perception is crucial to any policy prescriptions for ways to face it.

The main indicators of the crisis are all well known. And yet, there is a need to restate them since most current analyses start at the wrong end—at the balance of payments and trade positions. Both these are, of course, very important, highly sensitive symptoms of international economic maladjustments. But they reflect the world scene, not its causes. They are 'surface' phenomenon as Marx used to call them, though the enormity of their impact on the contemporary world economy would probably make Marx use a less dismissive phrase now. Nobody would assign to mercury, measuring changes in weather or temperature, or to the Richter scale, measuring the degree and the spread of an earthquake, causal significance for what they reflect. But we know that in economics, causes and effects are not always kept clearly apart.

The structural characteristics that have brought about this

crisis in the capitalist countries merit much closer attention than they have received so far. Their detailed consideration is beyond the scope of this short Chapter, but at least some of its major indicators may be briefly described here :

(*a*) A decline in annual growth rate of GNP from five per cent during the 25 years since the end of the Second World War to only two per cent between 1973 to 1979, and a stagnation, or at best a slow recovery thereafter. All the once powerful engines of economic growth—the United States, Germany, France, Italy, the United Kingdom and even Japan, not to mention other small countries—were, in the early 1980s, in reverse gear, idling or under repair. There has subsequently been a recovery in the United States, which was hailed as a harbinger of a new world-wide upsurge. Some caution will not be amiss here, considering the fragile nature of this upswing, its limitation to the United States only, and the broad background described in the next section. One swallow does not make a summer, and the experience during the Great Depression (1928 and 1939) is not an altogether unhealthy reminder for caution : there were several hesitant upward movements then too (Lewis 1980 : 557)

(*b*) There is a stagnation, or a greater decline in industrial output than in overall GNP. All the major industrial sectors, the spearheads of the post-war acceleration of output, are receding : for instance, coal, steel, cement, automobiles, synthetic fibres, other chemicals, iron and steel and metal processing and engineering industries producing durable consumer and capital goods, construction, etc. These decelerating industries had formed the core of the post Second World War industrial expansion. The acceleration furnished by electronics and new frontier technologies has too small a weight in output, employment and incomes to provide a compensatory impulse.

(*c*) External trade, which for 25 years since the end of the Second World War provided a strong stimulus to the expansion of industrial output and GNP, is in fact stagnant or declining in real terms (Lewis 1980 ; Reidel

1983). The stimulii provided in the past by widening domestic markets of capitalist countries through trade liberalisation and the establishment of the Common Market and free trade regimes in Europe have run out of steam. Nor will the import demand of the developing countries, voracious consumers of all manufactured goods, be able to sustain future expansion of trade, as it had done in the past. The severe balance of payments strains faced by most of them have reduced their import demand. These have been caused by falling export receipts, stemming from declining exports of primary products and manufactures and the strangling burden of debt servicing. That has put an end to their providing the expansionary impetus to output in the capitalist countries. The imposition of conditionality attached to IMF drawings and debt negotiations has only served to exacerbate the situation by requiring cuts in national expenditures, the introduction of credit ceilings, devaluation of national currencies, increased recourse to the market mechanism and severe restrictions of much needed imports.

(*d*) Even more severe is the stagnation, or spreading decline, in gross capital formation. The rate of capacity utilisation of the capital stock has fallen sharply, particularly in the major industries. Excess capacity in several key industries now ranges from one-tenth to over two-fifths. The rise in investments in electronics and informatics is too small in scale to offset the decline in the industrial base. High interest rates, following from spectacular budget deficits, have dampened the investment demand, particularly in construction.

(*e*) Unemployment is at its highest level since the Great Depression, and it is rising, particularly in Western Europe. The Conservative governments have used unemployment as a tool to discipline the working class and to reduce its share in national output. High budgetary deficits have been advanced as the excuse for severe reductions in real social welfare expenditures, particularly in the recent period. The full-employment consensus of the immediate post-war years

> now looks like a dream from the distant past. Reliance on the market and generally restrictive policies have combined to restrain supplementary expansion of domestic demand to generate more rapid recovery and reduce unemployment.

The significance of these weaknesses has to be assessed against the background of several structural changes in the industrial capitalist countries, some of which have been perhaps responsible for preventing the crisis from turning into a spectacular crash. Among such changes, the following may be listed: a rise in both public sector expenditures and income originating in the service sector to nearly one-half of national output and expenditure ; the importance of social welfare programme and of unprecedented budget deficits as cushions for maintaining demand ; an increase in the internationalisation of production through the growing in power of transnational corporations as important instruments for governing movements in output and its location ; a reverse transfer of real resources from the Third World countries, amounting to four to six per cent of the GNP of several of them ; the breakdown of the Bretton Woods system ; the disappearance of the full employment consensus. Several of these changes work in contradictory ways. Whatever their final infiuence, it is clear that all the growth scenarios for the period ahead are in a low key—continued stagnaton, fragile recoveries followed by renewed recessions, at best a fairly long period of rather slow growth at rates lower than one-half of those of the post-war period. Quite clearly, a wholly new phase is opening up. For a proper assessment of its implications it will be helpful to connect the present with the past—developments in the 200 years since the very beginning of the Industrial Revolution.

II. Long Waves in the Spread of Industrialisation

(a) *Cycles as an integral part of capitalist industrialisation*

It is generally recognised that the advance of industrial capitalism within a country or its spread to other countries has never pursued a straight linear course. It has always been

marked by several ups and downs, variable in intensity and duration, and affecting different countries in different ways. There is one feature about these ebbs and tides during 200 years of industrialisation which distinguishes them from the ups and downs in the preceding 6-10 years of the spread of the agricultural revolution. The fluctuations of the industrial age have their origin within the social system itself, in sharp contrast to those associated with natural calamities in the agricultural epoch. They are endogenous, not exogenous.

Earlier in the nineteenth century, every significant downturn was treated as a crisis. These were mainly spectacular commercial, financial or industrial failures. Marx had already drawn attention as early as in 1848, to the periodicity of the crisis.[3]

Crises and their periodicity, though never systematically explored in any one part of Marx's extensive writing, were the central framework of his entire analysis of the capitalist mode of development. References to their occurrence, course of development, proximate and long-term causes—concentration of capitalist enterprise, role as a stage for the next crisis, impact on class relations and implications on the future of the capitalist system itself—are to be found in all his writings, more particularly in the discussion of the process of circulation of capital in the second volume, and in the process of capitalist production as a whole in the third volume of his *Capital*.[4] Crisis for Marx was not just an economic phenomenon. It served in his dialectic method as an instrument for creating the very conditions and forces for the transformation of the capitalist system itself.

One may recall here in contrast the views of Keynes and Schumpeter on the possibility of overcoming the inter-war crisis.[5] Writing on the eve of the World Economic Conference, convened by McDonald in June 1933, Keynes in a delightful opening on the nature of the problem, attributed the Great Depression to 'some immaterial devices of the mind' calling for 'a little, a very little, clear thinking.' His *General Theory*, then being written, was to supply this clear thinking. Schumpeter, on the other hand, had written voluminously on the subject ; his *Business Cycles* in two volumes alone runs to 1,095 pages, concluding with the words : 'But the sociological drift cannot be expected to change' (Schumpeter 1939 II : 1050).[6]

(b) Long economic waves

The growth of industrial capitalism and its spread have taken place through a series of crises, cycles, waves. Professor N.D. Kondratiev, writing in 1925, first drew attention to long waves 'of about 50 years in the capitalistic economy' intermediate cycles of 7 to 11 years, and still shorter waves of about three and a half years (Kondratiev 1925).

Schumpeter has termed the long-waves as 'Kondratievs', the intermediate ones as 'Juglars' and the short ones as 'Kitchins', following the names of authors who had originally explored them (Schumpeter 1939 : 162-9). Each Kondratiev contained about five Juglars, and each Juglar about three Kitchins. During the 200 years of industrialisation, there were thus four Kondratiev waves, over 20 Juglar cycles, and some 60-65 Kitchin ripples.

The growth in the vast literature on cycles has brought about little consensus on their causes, and in the case of longer cycles, even on their systematic occurrence (Brody 1985). But it has served to establish by and large the existence and the persistence of these intertwined—long, medium and short—cycles as integral parts of the development of capitalist economies. In general, it would seem that the three and a half-year Kitchin cycle was associated with movements in inventories, stock markets, interest and bond rates and commodity prices ; the 7 to 11 year Juglar cycles were related to imbalances in demand, particularly in capital formation ; and the long waves, associated with Kondratiev, reflected broad movements in technological innovations and their introduction into the productive system (Freeman et al 1982 ; van Duijn 1983). Each long wave was approximately of 50 to 60 years' duration, about half of it going up and the other half down.

Since the intermediate and short-term cycles take place within the long cycle, each influencing the intensity and the amplitude of the other, for analytical convenience I have chosen to present the 200 year process of industrialisation as four long waves. Apart from facilitating the compression of this long and complex process into a brief exposition, it helps pinpoint more sharply the twin phenomena of growth of industrial output as a whole and more particularly its spread to other countries

(Marx 1867 I: Author's Preface)—subjects which have more pressing relevance to the countries in the Third World.

The data on four Kondratiev waves are summarised in Table 1.7. The first Kondratiev covered the period from the early 1790s to 1844-51. Textiles, coal and steam power, innovations developed or improved in England, furnished the basis for the industrialisation of the pioneer countries. The second Kondratiev (1844-51 to 1890-96), spurred by the spread of railways and iron and steel production, marked the entry of the United States, Germany, France, central and north European countries into industrialisation. By the end of the nineteenth century, the population living in industrialised countries, or what we call the 'Industrial Centre' had already expanded to some 250 mn. Up to this point, this was basically a straightforward development of private, individual capitalism.

The third Kondratiev (1890-96 to 1948) was marked by two world wars, the socialist revolution in Russia and the Great Depression in the capitalist countries. Based upon the introduction of new innovations in the field of chemicals, diesel and electric power and communications, it witnessed the spread of industrialisation to Japan, Canada, Australia, New Zealand, Finland, the Soviet Union and to several points in what is now called the Third World. By 1948 the Industrial Centre covered countries with a total population of some 750 mn, or a little over a quarter of the world's population.

The fourth Kondratiev (1948 to. . . .) saw a further spread of industrialisation to southern and eastern Europe and to several countries in the Third World, notably Brazil, Mexico, India, China, North Korea, South Korea, Egypt, etc. The Third World countries have so far only 'islands' of industrialisation ; their full development is still to take place.

III. The Crisis in the Centre : An Opportunity for the Periphery[8]

The questions concerning the spread of industrialisation and economic crises or cycles have been widely discussed in the economic literature. I have taken up elsewhere the main features of the industrial transformation, particularly those concerning the swift pace of growth in comparison with the

Table 1 : Long Waves in the Spread of Industrialisation, 1970 to 1980

Period[a]	Years	Technological innovations[b]	Spread of industrialisation[c]	Population (mn)[d] Industrial centre[e]	World
1	2	3	4	5	6
First Kondratiev :					
1790 to 1844-51	*50*	Textiles coal	Great Britain	50	950
Upswing : 1790s to 1810-17	20	steam power	Belgium, France		
Downswing : 1810-17 to 1844-51	30				
Second Kondratiev :					
1844-51 to 1890-96	*45-50*	Railways iron steel			1,170
Upswing : 1844-51 to 1870-75	25				
Downswing : 1870-75 to 1890-96	20		USA, Germany, Central and north Europe	250	1,600
Third Kondratiev :					
1890-96 to 1948	*55*	Chemicals diesal and electric power communications			
Upswing : 1890-96 to 1920s	30				

(*Contd.*)

Table 1 : (*Contd.*)

1	2	3	4	5	6
Downswing : 1920s to 1948	25		—Japan, Canada, Australia, New Zealand, Italy, Finland —Soviet Union —several points in Third World	750	2,400
Fourth Kondratiev : 1948 to 19. .	?	Chemicals electronics			
Upswing : 1948 to 1973	25		Southern and eastern Europe, Brazil, Mexico, India, North Korea, South Korea, China,	3,000 to 4,000	6,000
Downswing : 1973 to ?			Egypt etc,	?	?

Sources : Kondratiev (1925) : Schumpeter (1939) ; Kuznets (1966) ; Freeman et al (1982) ; Mancur (1982) ; Patel (1961) ; recent United Nations data.

Note : These are only benchmark indicators for all data, and should, therefore, be interpreted in a broad sense only.

(*a*) In each of these broad periods, there were several medium and short-term cycles ; see text for elaboration.

(*b*) Particularly those which were being incorporated into the productive system on a massive scale.

(*c*) Only the most important ones are listed ; there were several others varying in size and significance.

(*d*) Approximate figures at the end of the 'downswing'.

(*e*) Including both capitalist and socialist countries.

past, the rapidity of its spread to other countries and regions, and the progressive rise in the rate of growth as industrialisation was initiated in other countries (Patel 1961, 1964). But the question of the interrelation between the twin phenomena of economic crisis and the spread of industrialisation have so far not received the attention they merit. These interrelationships are not only of theoretical interest ; they have a direct bearing on practical policies concerning the relations among nation states and social classes, and the bases on which conflicts among them arise and are resolved. This is indeed a vast field, and the short space in this study is clearly insufficient to explore these issues. Our objective at this stage is to raise certain questions and suggest tentative answers to them, hoping that they would thereby open up discussion which may in future furnish more satisfactory answers to the main hypotheses advanced here.

The old saying that every crisis is an opportunity would seem to be not so deviod of meaning in the spread of industrialisation to the new entrants. I am told the Chinese word for crisis is 'wei ji' (pronounced 'way chee'), which expresses in a highly condensed form this joint meaning in its two characters-the first character 'wei' signifying danger and the second 'ji, denoting a turning point, or an opportunity. Economic crises have played both these roles-danger for the established, opportunity for the newcomers.

In order to assist the consideration of the issues raised here I have summarised in Table 1 the main landmarks in the spread of industrialisation to newcomers. The data cover the period 1790 to 1980, broken down in approximate indications of the downswings and upswings in what may be identified as four broadly defined long waves, or Kondratievs. The table identifies the cluster of basic innovations which spearheaded the beginning of each new phase of industrial development and its spread from the pioneer country to other newcomers. It also gives in a summary form the estimates of population in the Industrial Centre as it spread from Great Britain to other countries. Perhaps a word of caution is called for in interpreting these data covering such a long period, its breakdown into phases and such a large number of countries. The data obviously combine all the weaknesses, and even disputes, of long-period

analysis, and should, therefore, be used as benchmark indicators of the broad sweep of change, rather than as precise evidence.

The material in the Table is used here to explore two inter-related phenomena : (*a*) the spread of industrialisation to new entrants, the timing of their entry, the pace of their development, and the increase in the population covered by the expanding Industrial Centre ; and (*b*) the evolution of the social systems—capitalist, socialist and several intermediate transitional post-capitalist, pre-socialist forms—under which the spread of industrialisation took place.

(*a*) *The expansion of the Industrial Centre : timing, pace and population*

Industrialisation began in a tiny triangle in England which had in late eighteenth century a population of no more than 15 mn. The establishment of several new industries had already started in the continental European countries, particularly Belgium and France, and across the Atlantic, in the United States. But it was only in the downsing of the 1870s that the seeds which had been sown earlier brought about a massive spread of industrialisation to Germany, the United States and the central and the north European countries. This period has come to be called the 'long depression' (1873-96) in economic literature. And despite several controversies, it indeed had many features of a real depression (Hobsbaum 1977 : 359). But the depression affected mainly Great Britain and France, the Industrial Centre of the period. The other countries mentioned above, which were then in the industrial periphery, expanded their output at nearly two to three times the rate of growth in the pioneer country, Great Britain. Thus for instance, the annual growth rate of industrial ontput for the 1870s to 1890s was only 1.3 per cent in France and 1.7 per cent in Great Britain, but as high as 4.7 per cent in the United States, 3.1 per cent in Sweden and 2.9 per cent in Germany (Duijn 1983, Table 9.7, p. 156). In consequence, by the time the nineteenth century closed, the pioneer country had ceased to be the undisputed workshop of the world. Germany and the United States had already out-distanced it in the volume of their industrial output ; and Great Britain's share in the world industrial output fell from

over one-third of the total to less than one-fifth during this period.

Around the middle of the nineteenth century, the population of industrial countries, or the then Industrial Centre, could not have been much more than some 40 to 50 mn ; in reality, this gives a highly exaggerated idea of the position, since most of the population even in this limited Industrial Centre was still engaged in agriculture. But by the time the century ended the population covered by the Industrial Centre had multiplied four to five times, rising to some 250 mn.

A similar phenomenon was also noticeable for the period following the First World War. This period has been characterised as Inter-war Stagnation, which also included the Great Depression. There was indeed a severe economic crisis of unprecedented magnitude in the countries of the then Industrial Centre. But it is striking that this was precisely the period in which industrial development took firm roots in several other countries : for instance, Japan, Canada, Australia, New Zealand, Italy, Finland, the Soviet Union. By 1950, the population of the expanding Industrial Centre had grown to some 750 mn—rising three-fold from 250 mn in 1900. During these 40 years of the so-called stagnation and the Second World War, as many as 500 mn persons, or over 60 per cent of the entire expansion in the world population it that period, were added to the growing Industrial Centre. As in the earlier 'long depression', in this case too the annual rate of growth of the newly industrialising countries was nearly twice as high as in the established Industrial Centre (see Table 2). One should perhaps also add the here that during this period, the first steps towards industrialisation were taken in several countries—India, Mexico, Argentina, Brazil among others—which are now called the developing countries.

Since 1973, the developed capitalist countries have witnessed a marked deceleration in their rate of growth. In contrast, industrial development had since 1950 begun to contribute a significant portion of the national output in southern and eastern European countries, Brazil, Mexico, Venezuela, Cuba, India, Pakistan, Malaysia, North Korea, South Korea, China, Egypt, Algeria, Iraq, Syria and others. If these countries—or at least some of the major ones—can carry on the momentum of

their past industrial growth in the period ahead, one might well see that by the end of the twentieth century some 2,000-3,000 mn persons might have been added to the Industrial Centre.

The past major economic crises—the Long Depression (1873-96) and the Great Depression (1929-40)—were thus not world crises in a universal sense. They applied with intensity mainly to the countries in the then Industrial Centre, and to world trade rather than to world output. Several others in the Industrial Periphery took at the same time long strides in their industrialisation. Two cross-currents were thus operating at the same time : crisis in the Centre and progressive industrialisation of several countries in the Periphery. The crisis in the Centre virtually strangled those countries in the periphery which were dependent on the Centre. On the other hand, several other countries in the Periphery achieved rapid industrialisation. They were able to shield themselves from the adverse effects of the crisis in the Centre, and carry out their own autonomous development, often in fact drawing upon the very weaknesses and internal rivalries of the Centre. An examination of the main lines along which this task was accomplished and the several transitional social systems which assisted the process are taken up in the next section.

There is one more feature of the spread of the Industrial Centre which may be singled out here for a little more detailed consideration. It concerns the progressive rise in the rate of growth of output for the new entrants to industrialisation. The pace seems to have quickened as each successive group of countries entered the process of development. This may be illustrated by reference to annual growth rates of per capita output. Historical evidence for such growth rates, particularly for the nineteenth century, is limited to a few countries, and then only for varying periods. Moreover, the concepts and coverage of output figures is rarely, if ever, identical or even comparable. The available evidence is summarised in Table 2.

As shown in Table 2, the annual per capita growth rate of output was only around 1.2 to 1.4 per cent for the early starters (England, France and Belgium). It rose to between 1.6 and 1.8 per cent for the next group of entrants—Germany, the United

Table 2 : Progressive Rise in the Rate of Growth of Per Capita Output

Group Selected Countries	Period of entry into rapid industrialisation	Annual rate of growth[a] of per capita GDP (%)
1. England, France Belgium	1820s	1.2-1.4
2. Germany, United States, Canada, Denmark, Switz.	1870s	1.6-1.8
3. Norway, Sweden Italy, Japan, Russia	1890s	2.1-2.8
4. U.S.S.R. ;	1930s	3.0-4.0;
eastern Europe, southern European countries, and several Third World countries	1950s	even over 5 0

Source : Based on data in Simon Kuznets, *Modern Economic Growth : Rate, Structure and Spread* (Yale University Press, 1966), Table 2.5, and United Nations, *Statistical Yearbook* (Several issues) for more recent period.

States, Canada, Denmark and Switzerland. The countries which began their industrial development in the 1890s—for instance, Norway, Sweden, Italy, Japan, Czarist Russia—were to demonstrate still higher rates of per capita growth of output, amounting to between 2.1 and 2.8 per cent per year. More recently in the twentieth century, we find that the per capita growth rates for several countries were to be even higher—3.0 to 4.0 per cent per year for planned development in the Soviet Union and as high as 4.0 to 5.0 per cent for eastern and southern Europe and several countries in the Third World during the post—1950 period.

(*a*) The rate covers the period from the years mentioned in the preceding column to the recent years for which data are available.

The progressive rise in per capita growth rate of output for each new entrant to industrialisation and its causes is a subject which merits further investigation. It seems to underline, as

Gerchenkson had done earlier, the advantages accruing to the late-comers through their being able to benefit from earlier experiences.

In summary then the newcomers to industrialisation were much less affected by what has been called the 'Long Depression' or the 'Great Depression' ; in fact, they registered remarkably rapid growth precisely in these periods. Second, each long wave saw the population in the Industrial Centre expand three to four times with the result that the Industrial Centre, with less than 50 mn persons in 1850, expanded to over 1,000 mn persons by 1980 ; and it could possibly cover 3,000 to 4,000 mn by the year 2,000, thus absorbing one-half to two-thirds of the entire increment in world population in the period. And finally, the per capita pace of new entrants rose progressively over that of the early starters, thereby offering them the possibility of catching-up through the cumulatively higher benefits of exponential growth.

(b) Capitalism in transition

The role of crisis as a powerful agent in promoting the spread of industrialisation and in bringing about new forms of social transition has so far not been satisfactorily explained. Much more rigorous empirical analysis together with the development of conceptual insights is called for to clarify this role. It should, however, come as no surprise that crisis has been precisely the period when all the economic, social and policies conflicts—both at home and abroad—came out sharply into the open. The impact of the crisis on the incipient industries and the consequent fall in profits and the rise of unemployment spurred both capitalists and working class into action. That is when mergers, monopolies, trusts and cartels took shape. That is when workers organised against cuts in wages, and their unions pressed for stability of incomes, compensation for unemployment, expansion of social welfare benefits, and new policies for further growth. That is when established policies propagated by conventional wisdom, and established institutions sustained by popular indifference during a period of relative prosperity were sharply questioned by each class in society, in order to defend its own class interest. That is when social

conflicts and their reflection in heightened political activity rose to their peak. That is when the quest for a new consensus, representing the changed balance of organised forces, become paramount. That is also when social compromises were born. The crisis described above led to a massive questioning of the sanctity of the old form of capitalist relations and forcefully shook their very foundations.

The influences exercised by each of the four major downswings underline the role played by successive crises as creator, and in course of time, as a kind of resolver of social conflicts : the British Reform Acts and the birth of the Trade Union movement, for instance, which took place during the downswing of the 1820s. Nor where the revolutionary upheavals in continental Europe in the late 1840s unconnected with the crisis. All these were to end in what Professor Hobsbaum has called the arrival of the 'Age of Capital'.

The downswing between 1870 and 1890 was also associated with several upheavals. To list a few : the extension of universal franchise ; the legitimisation of social democracy in Germany ; the abandonment of *laissez-faire* or Manchesterism as it was called in Europe ; the vast expansion in the role of the State in the development of railways and communications, the great strides towards universal primary education and strong promotion of all three levels of education ; the active encouragement of consumption of national products and discrimination against imports ; the intense competition among imperialist powers for acquisition of colonies and overseas markets, finally leading to the First World War. The downswing following the First World War, or the period of inter-war stagnation, opened wholly new frontiers for social action. The offspring of the First World War was the victory of the socialist revolution in Russia. The new system marked the first decisive breach in the 6000—year tradition of all preceding human history—replacement of the dominance of private property, particularly in the means of production, and of the search for private gains by social property, social gains and collective welfare. Planned development from then onwards became the instrument of social and economic transformation. Industrial Capitalism had now to face the new epoch of Industrial Socialism.

The industrialisation of Japan also marks a distinctly new phase, particularly in the management of economic development. There, the State did not limit itself to merely manipulating tariff rates. It became the active promoter of industrialisation by pulling together banks, industrial enterprises and government policy-makers—ushering in a kind of system of capitalist central planning. Several other countries emulated this new role.

Of no less significance were the changes in the old capitalist Industrial Centre. The confidence in capitalism as the vehicle of progress had all but vanished. Instead of evoking pride, being called a 'capitalist' began to be considered as a cause of shame or even as a term of abuse. We may cite here the conclusions of the two heroes of this symposium—Keynes and Schumpeter—on the future of capitalism. Disappointed at the failure of his *Times* articles on 'Means to Prosperity' to persuade the policy-makers at the 1933 World Economic Conference, Keynes wrote in despair :

> I sympathise, therefore, with those who would minimise, rather than with those who would maximise, economic entanglement among nations. Ideas, knowledge, science, hospitality, travel—these are the things which should of their nature be international. But let goods be homespun whenever it is reasonable and conveniently possible, and above all, let finance be primarily national . . .
>
> The decadent international but individualist capitalism, in the hands of which we found ourselves after the war, is not a success. It is not intelligent, it is not beautiful, it is not just, it is not virtuous—and it doesn't deliver the goods. In short, we dislike it, and we are beginning to despise it . . . We do not wish, therefore, to be at the mercy of world forces working out, or trying to work out, some uniform equilibrium according to the ideal principles, if they can be called such, of *laissez-fairs* capitalism. We wish . . . to be our own masters, and to be as free as we can make ourselves from the interferences of the outside world (Keynes 1933b).

Schumpeter had long been impressed by his hero, the business entrepreneur, and had placed him in the driver's seat of the engine of economic expansion. Writing his account of post-First World War developments, he stated with a noticeable air of sadness : 'Capitalism and its civilisation may be declining, shading off into something else, or tottering towards a violent death. The writer personally thinks they are' (Schumpter 1939 : 908, 1033). Discussing vanishing investment opportunities, he concluded, 'In this sense, stabilised capitalism is a contradiction in terms.'

In the capitalist countries, the retreat from *laissez-faire* was near complete in the face of the trinity of its great disasters—two World Wars and the Great Depression—produced by the system itself. Social security systems began to be firmly implanted under pressures exercised by the development of industrial socialism abroad, and by the trade unions and socialist political parties at home, and widened where a beginning had already been made. The economic role of the State, through its manifold operations, was changed beyond recognition. Its nineteenth century antecedent accounted for a homoeopathic dose of national output to be used for dispensing 'justice', maintaining 'law and order' through the police, and guarding 'national security' through the army. In the wake of the Great Depression and the two World Wars, it became the most powerful economic agent in society, accounting for as much as half of the national output in most of western Europe, and nearly one-third in the United States. The State had become, in western Europe particularly, an important participant not only in providing social services, but also a major investor in infrastructure—transport, communications, construction, etc.—and in several major industrial enterprises. To disregard changes of such magnitude could only yield a distorted view of the changing reality.

The capitalist Industrial Centre witnessed in the post-1950 period what some have called its 'golden age of growth.' But even that period was to see the vast imperialist empires crumble and the surge of former colonies to independence ; revolutions in China, Yugoslavia, Cuba, Algeria and elsewhere ; socialist industrialisation in eastern Europe ; the formation of powerful transnational corporations operating on a centrally planned basis within each enterprise ; and the emergence of the develop-

ing countries on the world stage. Industrial capitalism, the centre-piece of the nineteenth century, was no longer the universal driving force. The Age of Capital was coming to a close.

IV. Emergence of Post-capitalist, Pre-socialist and Socialist Economic Formations

The question of the emergence of transitional forms, bridging one epoch to another, is of vital concern in comprehending the laws of social change. That is in fact the content of all historical development in its broadest sense. Such transitions can be discussed properly only in the context of broad historical epochs and particular economic and social structures. Unfortunately, however, such discussions have so far not received the attention they obviously merit.

This applies particularly to the transition from capitalism, though it is also, of course, relevant to all pre-capitalist transitions.

(*a*) *Discussion of pre-capitalist economic formations*

Marx had taken up the question of social transition in 1857 while he was working on his *Critique of Political Economy* and *Capital.* Part of this material was published in English in 1964 under the title *Pre-capitalist Economic Formations*, with a penetrating introduction by Eric Hobsbaum (Marx 1964). Marx had defined three main epochs in the history of class society: the primitive communal system (the oriental and ancient including slavery later), feudalism and capitalism. Several routes out of the primitive communal system were stressed. But the information available on these in the mid-nineteenth century was too skimpy to permit rigorous treatment. The mechanisms for the breakdown of the primitive communal system were not clearly outlined though there were several implicit suggestions. Nor were the forms of transition to feudalism defined. Many of Marx's earlier ideas on the primitive communal system were modified in later years as more materials on the subject became available *e.g.*, Maurer 1854 and 1862-3; Morgan 1877, and Russian literature,

particularly by Kovalevski 1879. His characterisation of the 'Asiatic mode' of production was later subjected to considerable discussion, and was subsequently considerably modified, or even abandoned (Marx 1964 : Hobsbaum's introduction pp 32-5, 57-63).

The transition from feudalism to capitalism appears in Marx's writings to take the form of an evolution from feudalism. It begins with the separation of the town from the countryside, a divorce of labour in cities between trade and production, specialisation of production between different cities, emergence of the factory system and finally, the widespread application of machinery following the industrial revolution. But Marx's discussion on this subject was very incomplete. As Hobsbaum concludes : 'When we come to feudalism, out of which capitalism *did* develop, the problem becomes very much more puzzling, if only because Marx tells us so little about it'. (*ibid.*, 41) Marx had mentioned earlier that "the transition from feudalism to capitalism, however, is a product of feudal evolution. . . . Bourgeois society in turn is seen to arise, as it were, in the interstices of feudal society. '(*ibid.*, 29, 32). There is very little discussion by Marx of the internal contradictions of feudalism, or of serfdom. His concern with the internal dynamics of pre-capitalist formations was particularly limited. He barely touched upon the specific relationship between the feudal countryside and the city, or on why and how the former gave rise to the latter. Later on, Engels' work attempted to fill in several of these gaps. But even then there is no satisfactory assessment of the decline of feudalism, and transition to capitalism. (*ibid.*, 56; Sweezy et al n.d.). In their later works, Marx and Engels had also tended to draw attention to sub-varieties, sub-phases, transitional forms and overlapping formations within their larger social classifications.

Hobsbaum refers to the recent revival of interest in the forms of transition, particularly from feudalism to capitalism. But he concludes that 'the present state of Marxist discussion in this field is unsatisfactory. Much of this is due to the historic developments in the international Marxist movement in the generation before the middle 1950s, which had an unquestionably negative effect on the level of Marxist

discussion in this as in many other fields. . . . All the more reason why today the much-needed clarification of the Marxist view of historical evolution, and especially the main stages of development, should be undertaken. '(Marx 1964 : Hobsbaum's Introduction p. 65).

I should like to add that beyond such clarification, there is an urgent need to explore the dynamics of transition from capitalism to socialism, particularly of the post-capitalist and pre-socialist economic formations. The clarification of the transition process from feudalism to capitalism may have a great deal of academic value, and even some usefulness as a lesson from history. The question of the transition from capitalism to socialism, on the other hand, has a direct bearing, upon the very process itself. Silence in such a critical field is irrational and unscholarly, a reiteration of dogmas positively harmful. The pages that follow are meant to contribute to the discussion of the transition from capitalism.

(*b*) *Transition from capitalism*

In the Preface (dated July 25, 1867) to his *Capital*, Marx had taken up the discussion of transitional forms. He explained why his analysis was mainly based on England which was 'the classic ground' for the development of the capitalist mode of production and exchange. If the German thought things were going to be different there, he added: 'I must plainly tell him, "De te fabula narraturi". His conclusion that 'the country that is more developed industrially only shows, to the less developed, the image of its future' has quite a modern ring, even in terminology.

Whether the developments on the continent of Europe will take 'a form more brutal or more humane' depended, Marx stated, on 'the degree of development of the working class itself' and 'the removal of all *legally removable hindrances* to the free development of the working-class' (my italics). That is why he described in such detail the history and the results of the English factory legislation. He added: 'One nation can and should learn from others.' Even when a society is on the right track of development; 'it can neither clear by bold leaps, nor

remove by legal enactments, the obstacles offered by the successive phases of its normal development. But it can shorten and lessen the birth-pangs.' Noting several signs of the change in relations between capital and labour and of capital and property in land, he concluded that 'they do not signify that tomorrow a miracle will happen. They show that, within the ruling classes themselves, a foreboding is dawning, that present society is no solid crystal, but an organism capable of change, and is constantly changing'. (Marx 1906 : 13-16). This perspective is crucial to explaining the transition from capitalism.

This was written over 100 years ago. It was concerned with the problems of transition to and from capitalism, its main lines and its possible forms. The same line of reasoning is no less needed for delineating the contours of the transition from capitalism to socialism, for the development of several types of post-capitalist, pre-socialist and socialist economic formations. This essay does not pretend to explain in depth the theoretical implications of the issues involved in what is obviously a complicated process of transition. But it should perhaps be underlined that if there were several ways and forms of transition from primitive communism to feudalism and from feudalism to capitalism, it would seem strange to maintain that the transition from capitalism to socialism in a world so vastly different and so closely interrelated will, on the other hand, take only one royal road without going through several types and forms in several countries. If man is indeed supposed to make his own history, he must have left the imprints of his endeavours on what happened in these turbulent years involving unprecedented mass action since Marx wrote on the subject. Man could not have been just idle in this period.

Before coming to a description of some of the elements of what did happen over the last 100 years, it would seem useful to recall Marx's own views on the transition from capitalism. In chapter II of the *Manifesto*, Marx and Engels described the relation between communists and the proletarians. The objections raised by the bourgeoisie were taken up in a style bristling with brilliant satire. Almost fed up with this, they then described in concrete detail the steps that the proletariat would take when it came to power—steps which they characterised

as 'the most radical rupture with traditional ideas.' This portion is so pertinent to any discussion of the transition, and is so rarely remembered nowadays, that it merits citation in full. They stated (my italics):

> We have seen above, that the first step in the revolution by the working class, is to raise the proletariat to the position of ruling class, *to win the battle of democracy.*
>
> The proletariat will use its political supremacy, to wrest, *by degrees,* all capital from the bourgeoisie, to centralise all instruments of production in the hands of the state, *i.e.*, of the proletariat organised as the ruling class; and to increase the total of productive forces as rapidly as possible.
>
> Of course, *in the beginning,* this cannot be effected except by means of despotic inroads on the rights of property, and on the conditions of bourgeois production; by means of measures, therefore, which appear economically insufficient and untenable, but which, in the course of the movement, outstrip themselves, necessitate further inroads upon the old social order, and are unavoidable as a means of entirely revolutionising the mode of production.
>
> These measures will *of course be different in different countries.*
>
> Nevertheless *in the most advanced* countries the following will be pretty generally applicable.
>
> (*a*) Abolition of property in land and application of all rents of land to public purposes.
> (*b*) A heavy progressive or graduated income tax.
> (*c*) Abolition of all right of inheritance.
> (*d*) Confiscation of the property of all emigrants and rebels.
> (*e*) Centralisation of credit in the hands of the state, by means of a national bank with State capital and an exclusive monopoly.
> (*f*) Centralisation of the means of communication and transport in the hands of the State.
> (*g*) Extension of factories and instruments of production owned by the State; the bringing into cultivation of

waste lands, and the improvement of the soil generally in accordance with a common plan.

(*h*) Equal obligation of all to work. Establishment of industrial armies, especially for agriculture.

(*i*) Combination of agriculture with manufacturing industries ; gradual abolition of the distinction between town and country, by a more equal distribution of the population over the country.

(*j*) Free education for all children in public schools. Abolition of children's factory labour in its present form. Combination of education with industrial production, etc.

It should be recalled that the 10 steps listed here were considered to be more or less generally applicable to most advanced countries, bearing in mind that they were to be undertaken by stages and that they were of course to be different in different countries. As one reads and re-reads these ten steps, it is indeed difficult not to be struck by the fact that a very large measure of what was regarded by Marx and Engels as 'the most radical rupture with traditional ideas' in 1848 has now become part of the accepted practice in nearly all advanced countries and even in many of the developing countries.

Among these measures are the following: (*a*) change in feudal land relations ; (*b*) progressive income tax ; (*c*) curtailment of the right of inheritance ; (*d*) establishment of central banks ; (*e*) centralisation of transport and communications ; (*f*) extension of state ownership of factories and instruments of production ; (*g*) equal obligation to work ; (*h*) gradual abolition of the distinction between town and country ; (10) free education for all children in public schools. Only 'the confiscation of the property of all emigrants and rebels' is missing.

The degree and the extent of achievement of each of these 9 steps has varied, of course, very much from country to country, as was to be expected. This should not, however, detract form the underlying fact that the measures which were regarded by Marx and Engels as exceptional and most radical in the nineteenth century have now become widely adopted in practice in many countries. Can one suggest that these vast

changes, however, did not in any serious manner deflect from the very bases of nineteeth century capitalism?

(c) *World distribution of industrial output by social systems in transition*

What has been described above does not offer a fully satisfactory basis for characterising with precision the evolution of economic formations, the current situation and the distribution of countries under each of them at present. As a minimum, it has underlined that since the end of the nineteenth century several intermediate formations—whether they are called post-capitalist or pre-socialist—must have taken place. The view of the world in terms of only two forms—capitalist and socialist—would thus appear to be too mechanical. Pending results of further empirical and theoretical work, we may classify the world economy under three broad formations : capitalist, intermediate and socialist. The distribution of world industrial output by each of these three systems of social organisation is shown in Table 3.

Country coverage of each group, based on rather arbitrary assumptions, is as follows (*a*) *Developed countries* : *capitalist* : the United States, Canada, Japan ; *socialist* : USSR and Eastern Europe ; *intermediate* : Western Europe, Australia, New Zealand ; (*b*) *Third World countries* : 'socialist' : China, North Korea, Vietnam, Mongolia, Yugoslavia, Romania, Cuba ; *intermediate* : India, Burma, Sri Lanka, Iraq, Syria, Algeria, Angola, Egypt, Ethiopia, Tanzania, Madagascar, Mozambique, Zambia, Zimbabwe (and a few other small African countries), and possibly Argentina, Mexico and Andean Pact countries in Latin America ; *capitalist or capitalist-dominated* : the rest. It should be added that none of these three social formations capture the full reality of the current economic scene and the class relationships in the countries concerned, particularly in the Third World. The labels are intended simply to indicate the direction of change rather than its achievement, and are therefore, placed in inverted commas.

The usefulness of the classification employed above is to be judged on the basis of its assumptions. These assumptions may be questioned. While doing so, three points need to be kept

in mind. First, this is a classification of *economic* formations and *not* of the *political* colour (whichever way this is perceived) of the governments in power, which change so often as a result of several factors, including elections, military take-overs or rebellions. Moreover, political formations tend to reflect with a considerable time-lag the changes in the economic bases of society. The economic classification may not, therefore, have at a point in time one to one correspondence with political formation. After all, the Prime Minister's Cabinets in Great Britain in the second half of the nineteenth century generally had majorities drawn from the big landowners, even though the bourgeoisie was the dominant class in power.

Second, the definition of the 'intermediate' economic formations has proved particularly difficult. The most important consideration that was used in this case was the extent to which the 10 steps outlined in the *Manifesto* had been more or less incorporated in the country concerned. In addition, the size and the scope of operations of the State sector, now amounting to around one-half of national output in most West European countries and playing a dominant economic role in most Third World countries, was also taken into consideration. I should emphasise that all that is intended by the introduction of the 'intermediate' group is to underline that some type of post-capitalist or pre-socialist sub-systems and forms must have emerged in view of major changes described here. This would point to the need for a more detailed analysis, which might reveal several important sub-classifications within the spectrum of this sub-system.

It may be added here that the term "intermediate forms" connotes a somewhat wider meaning than Kalecki's use of the term "intermediate regimes" to characterize several "mixed" economies in the Third World which employed the public sector as a spearhead of development. Our classification also includes several countries, particularly in Western Europe, which are normally placed under the category "Capitalist". I need not explain that this is a difference of substance rather than of semantics.

What has been described above may prove to be a tiresomely long statement on transitional forms. It has been undertaken because of the conviction that the 200-year evolution of the

Table 3 : Distribution of World Industrial Output[a] by Form of Social Organistion,[b] 1875-1980

Social Organisation	1875	1900	1953	1980	Population in millions 1980
Developed Countries	*99*	*99*	*90*	*80*	*1,160*
Capitalist			55	32	400
Intermediate	99	99	20	20	380
Socialist Europe			15	28	380
Third World[c]	*1*	*1*	*10*	*20*	*3,270*
'Capitalist'				7	1,100
'Intermediate'	1	1	7	7	1,070
'Socialist'			3	6	1,100
World : Total	*100*	*100*	*100*	*100*	*4,430*
Capitalist				39	1,500
Intermediate	100	100	82	27	1,520
Socialist			18	34	1,410
Index : world industrial output (1953=100)	1.3	3.5	22	100	

Sources : W.G. Hoffman, '*The Growth of Industrial Economies*' (New York, Oceana Publications, 1958) ; League of Nations, *Industrialisation and Foreign Trade* (Sales No. 1945.II.A.10) ; S.J. Patel, 'Rates of industrial growth in the last century, 1860-1958', *Economic Development and Cultural Change* (Chicago, III.), Vol. IX, No. 3, April 1961, p. 316 ; United Nations, *Monthly Statistical Bulletin and Statitical Yearbook* (several issues).

Note : The figures on distribution of industrial output and of population (1980) represent broad orders of magnitude and should, therefore, not be treated as precise indicators. The term 'intermediate' simply underlines the need for focusing attention away from the extremes.

(*a*) The geographical and industrial coverage of this table is larger than that used for the Lima target [see 'Lima Declaration and Plan of Action on Industrial Development and Co-operation', adopted at the Second General Conference of UNIDO, Lima, 12-26 March 1975 (ID/CONF. 3/31, ch.IV)]. Industrial output includes manufacturing, mining, construction, water, gas and electricity ; the geographical coverage is as explained in fn. (*c*) below.

(*b*) For country coverage, see text.

(*c*) Including Yugoslavia and Romania and estimated output for the socialist countries of Asia (China, Democratic People's Republic of Korea and Viet Nam), assumed to equal per capita industrial output in developing countries.

capitalist system, faced with the immense turmoil and upheavals it has faced, could not have left the system wholly intact, unchanged in its essential elements. Even if the way of differentiation used in this Chapter opens up a debate on the precise borderlines of such a transition, it would have served its main purpose.

There is a need to add a word of warning against interpreting too precisely the data in Table 3. All long-term series are beset with problems of weighting. These problems are compounded when individual indices are combined to indicate changing shares of different countries—difficulties which become nearly impossible to resolve when the comparisons concern countries at different levels of development and with very different economic and social systems. The conceptual basis of the United Nations indices of manufacturing production, used for the table, has changed over time. For instance, for the period 1938-63, they were based on the industrial census concepts, and from 1963 onwards on national accounting concepts. This change in conceptual base has produced such alterations in relative country standings, as explained in some detail in the footnote, that one begins to wonder whether the figures on country shares serve any purpose at all. With this caution, we may now turn briefly to some of the findings of Table 3.

First, world industrial output has increased over 75 times in the 105 years between 1875 and 1980, and perhaps a hundredfold since Marx's *Capital* was published. Both in the speed of its advance and in its spread, industrialisation has surpassed by far any preceding spoch of mankind's historic evolution.

Second, the advanced capitalist economies accounted for the whole of the world industrial output upto 1900. With the emergence of the socialist and intermediate forms, this share fell to 55 per cent by 1953. It shrank further to a mere 32 per cent by 1980. With only about one-third of the world industrial output, it can no longer be regarded as the predominant industrial group—a fact of some historic significance ! In all the current debates about the domination of the world economy by the transnational corporations, this drastic decline in the share of capitalist countries cannot be overlooked.

Third, the post-1917 years also mark the transition from

industrial capitalism to industrial socialism. The socialist countries in Europe, Asia and Latin America together accounted for around one-third of the world industrial output in 1980. Industrialisation can now no longer be regarded as synonymous with capitalism.

Fourth, the 'intermediate' group, both among the developed and the developing countries, with about a quarter of world industrial output, has also assumed a certain degree of importance as a post-capitalist, pre-socialist economic formation. This group can hardly be lumped together with either the capitalist group or the socialist group, no matter what opinion one holds about its significance as a distinct economic formation, or about its governments, or its internal class relations.

Fifth, the Third World (including Yugoslavia, Romania and Socialist Asia) too has emerged as an important actor on the world stage. It now accounts for nearly 20 per cent of world industrial output, equivalent to some five to six times the industrial output of the whole capitalist world in 1900. Economic formations in the Third World need not be classified with any rigidity. Even then, the 'socialist' Third World now accounts for about one-third of the Third World output, and the 'intermediate' group is not far behind.

V. Concluding Observations

Some of the central points in the preceding discussion of the 200-year course of industrial developments, during which industrial output rose over 100-fold and industrialisation spread to over 1,000mn people, may be briefly summarised.

1. The current economic crisis has its epicentre in the developed capitalist countries. It represents the continuation of the uneven nature of capitalist industrial development. This has remained the core of capitalist development, although the search for its causes has evoked conflicting explanations. It is only through frequent but fairly regular zig-zags that industrial capitalism has developed and spread to other countries. Over the last 200 years, there have been four long waves (of around 50 years), some 20 intermediate cycles (for about 10 years) and nearly 60 recessions (three and a half of

four years duration). The current economic crisis appears to be the downswing of the fourth long wave.

2. The frequent crisis, downturns or recessions have served to sort out various types of imbalances, or contradictions, that arose in the periods of upswings. Particularly strategic has been the role of the downswings of the longwaves in furnishing an opportunity for new entrants to industrialisation. The Long Depression (1873-96) saw several new countries—notably the United States, Germany, Canada, Switzerland,—join the Industrial Centre, until then occupied mainly by Great Britain, and partly by Belgium and France. The inter-war stagnation (1920s to 1948), including the Great Depression, similarly witnessed the entry into the Industrial Centre of several other countries, particularly Japan and the Soviet Union.

3. The pattern of industrial development has undergone a fundamental structural transformation during the inter-war stagnation. The private capitalist, the industrial entrepreneur acting mainly on his own with credit supplied by banks, no longer remains the only motive-power of unplanned industrial growth in the new entrants. This was particularly true of both Japan and the Soviet Union. In Japan, the State actively supported a kind of a corporate planned capitalist development. In the Soviet Union, on the other hand, socialist central planning, based on the abolition of private property in means of production, initiated a pattern of development which, in its relation to property ownership, set a course radically different from that followed in 6000 years of mankind's settled history. Socialist industrialisation thus has begun to act as a rival to capitalist industrialisation.

4. Even in other industrial capitalist countries, under pressure of trade unions, reform movements, social democratic and socialist parties, and of socialist development in the Soviet Union and elsewhere and faced with the necessity of managing the capitalist system working, some important changes were to take place in managing income flows and working conditions in the society and in the role of governments. The State sector came to occupy in these countries a central place in the generation and transfer of incomes and in expanding or regulating investments, particularly in the rapidly growing service sector. In most Western European countries, the State sector now

handles nearly one-half of national output, and a significant portion of investments, both old and new.

5. All these developments have brought about several important changes in the pattern of nineteenth century industrial capitalism. As in the transition from ancient communal property system or from feudalism, the transition from capitalism must have led to the development of several new economic formations—post-capitalist, pre-socialist, socialist—and a wide variety of sub-systems and sub-phases. All these merit careful examination, for they have a pressing relevance to comprehending the world economy in transition.

6. The downswing of the current long wave offers opportunities for the entry into industrialisation of several countries from the periphery, particularly the Third World. Which ones would succeed in doing so will depend to a large extent on the national policies pursued in these countries (Patel 1983). Several Third World countries, with a combined population of some 2,000 mn people nearly (one-half of humanity), now have such a possibility open to them.

7. The developments sketched here of the last 200 years, a twinkle of time in mankind's history, if not discontinued by disastrous nuclear war, have the potential of placing mankind, on the threshold of the next century, set to achieve the final abolition of the 'economic problem'—a problem around which, through its 6000-year settled history, it has constructed its religious, ethical and philosophical values and systems, and experimented with a series of changing institutional structures—family, nation state, international authorities—and social systems, sub-systems and phases and sub-phases of each of them. All these would be faced with fundamental transformations in the period ahead.

8 It is not only the world economy which thus is set towards its most profound transformation, but the world society as well.

References

1. A preliminary version of this article was presented to the Seminar on Marx, Schumpeter and Keynes on Capitalism organised by the Indian Council of Social Science Research, in New Delhi (27 to 30

January 1984). It was subsequently revised in the light of the discussions at the seminar and comments and observations received from several scholars, including Dr. David Evans of the Institute of Development Studies, University of Sussex, to whom the author is grateful. They are, of course, not responsible for whatever weaknesses may be found in this article.

2. Kondratiev, whose historical framework was taken over by Schumpeter, fitting into it the role of the entrepreneur, would also be a strong competitor for this honour.
3. Marx and Engels had written in 1848 in the *Communist Manifesto* about 'the periodical return of . . . commercial Crisis' and the appearance of 'an absurdity—the epidemic of overproduction'. Marx and Engels (1848, p. 15).
4. The following may be taken as selective references: Marx, *Capital I* (1920) Prefaces by the author (1867 to the first edition and 1873 to the second edition); Engel's preface to the first English translation (1886; 834-837); *Capital II* (1933; pp. 60, 87, 100, 120, 211, 282, 362-3, 365, 456, 472, f., 475, f., *Capital III* (1909: pp. 247-313, 286, 288, 292-3, 298, 302, 568, 578).
5. 'If our poverty were due to famine or earthquake or war, if we lacked material things and the resources to produce them, we could not expect to find the Means to Prosperity except in hard work, abstinence, and invention, In fact, our predicament is notoriously of another kind. It comes from some failure in the immaterial devices of the mind, in the working of the motives which should lead to the decisions and acts of will, necessary to put in movement the resources and technical means we already have. It is as though two motor-drivers, meeting in the middle of a highway, were unable to pass one another because neither knows the rule of the road. Their own muscles are no use; a motor engineer cannot help them; a better road would not serve. Nothing is required and nothing will avail, except a little, a very little, clear thinking (Keynes, 1933:5).
6. His Preface opens with the sentence: 'Analysing business cycles means neither more nor less than analysing the process of the capitalist era' (p. v). He continues: "I recommend no policy and propose no plan ... it will be seen (and often pointed out) that my analysis can in fact be used to drive practical conclusions of the most conservative as well as the most radical complexion, exactly as one and same body of engineering or medical knowledge can be used for the most varied purposes' (p. vi).

   Curiously, the description, let alone the analysis of cycles and growth, has been kept apart. Scheumpeter's analysis of cycles contains little perception of growth and spread. A similar neglect pervades Kuznets' (1966) classic work on growth, which keeps away from cyclical movements. And the subject of changes in economic formations is not taken up by any of them.
7. Using a nine-year moving average Kondratiev covered the data

available on prices, interest rates, wage of agricultural and textile workers, foreign trade, and output of coal, pig iron and lead for England, France, Germany and the United States generally for the period 1815 to 1920, with the coverage for prices going back to 1790. He concluded that wars and revolutions, taking place with regularity solely during the upswing of the long waves, originated from such, especially economic, circumstances. His conclusion regarding upheavals only during the upswing may need revision.

8. The terms 'Centre' and 'Periphery' are used here in their dynamic context over the past 200 years. They are not frozen in their currently allocated geographical frontiers. The Centre has thus grown enormously over this period.
9. The numbers refer to those in the quotations above. Point 4 regarding 'confiscation of property of all immigrants rebels', not taken up here, was of special concern to Marx and Engels in those days.
10. How far-reaching the effects of this change were may be seen from the following table on estimated percentage shares of two groups of countries, given in the same source; particularly for 1963:

	1938	1953	1963	1963	1980
1. late-Industrialising market economics	13.8	10.4	14.0	22.9	24.3
2. centrally planned economics.	34.5	23.2	28.5	14.6	23.8

Source: UNDIO, *Industry in a Changing World* (New York, 1983), Table II. 1, p. 23.

In 1963 alone, the share of the first group jumps from 14.0 per cent to 22.9 per cent, and that of the second declines from 28.5 per cent to 14.6 bringing it down to only 40 per cent of the figure reported for 1938. Our estimates correspond to applying 1963-1850 index numbers of industrial output of groups to the average of the two weights for 1963.

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27

The Crisis, the Third World and North-South and East-West Relations

SAMIR AMIN

I

For More than ten years the world economic system has been in a period of long enduring structural crisis. Far more than a confunctural "recession" in a period of expansion, the profound qualities of this crisis have led some to revive the theory of "long cycles" of "Kondratieff cycles," etc. The crisis is world-wide and marked by : (*a*) the collapse of growth; (*b*) the still more marked collapse of productive investment ; (*c*) a notable fall in profitability (but very unequally distributed among sector and enterprises) ; and (*d*) a tendency for the acceleration of inflation (stagflation).

It is a crisis of the capitalist system in so far as the world system is, in effect, largely ordered by the fundamental laws of this mode of production. The crisis also touches the countries in the East (commonly called "socialist." with all the reservations which are made to this designation) in so far as they effectively participate in the world system by commercial and technological exchanges, capital loans, etc. But these latter countries also suffer from another crisis which is particular to

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them : the difficulty of proceeding now from extensive accumulation to intensive accumulation. This crisis has, of course, obvious political aspects. The countries of the Third World which make up the periphery of the world capitalist system are also, clearly, the victims of this crisis.

My object here is certainly not to propose a new "theory" of capitalist expansion (for this refer to Dynamics of Global Crisis for our point of view). Only a few points are worth recalling :

(*a*) It is not so much the periods of "long depressions" which are to be explained but, on the contrary, the periods of long expansion. The latter are closely associated with "reconstructions and recoveries" which follow upon long periods of war, with "technological revolutions," and with epoch-making colonial expansions. According to one of the Marxist interpretations which we share, and which, I believe, is that of Paul Sweezy and Hany Magdoff the capitalist mode of production encounters a profound inherent tendency towards stagnation, an expression of its tendency to develop the forces of production beyond effective consumption demand. There is nothing mysterious in the current crisis following upon the long post-war expansion period.

(*b*) The capitalist economic system has always been world-wide in the sense that it is not merely a juxtaposition of national systems. It has always been comprised of centres and peripheries in which class structures and functions are complementary. It has been such since its mercantilist origins and not only since the end of the 19th century (Lenin's "Imperialism"). Marx perhaps underestimated this world-wide and unequal character of capitalist expansion (See *Le Marxisme en Afrique et en Asie and Le Marxisme Aulord'rul*).

Now, this world-wide character entails political effects which pose crucial questions. What transformations are on the historical agenda? What are the stakes of actual conflicts which

most determine the general movement? Who are the agents (the "subjects") of these transformations?

To these key questions we can sketch contrasting answers. First, consider the "orthodox-Marxist" vision according to which the essential conflict opposes socialism (working classes and not necessarily "countries of the East" as the Zdanovian theory claims) to capitalism. Other conflicts (North-South, inter-imperialist, etc. . .) would be "secondary." This vision is ideological ; it is not empirically confirmed. Do working classes of the most advanced countries struggle for socialism? And what socialism? In the framework of what type of world system? Secondly, there is that vision, wrongly qualified in the West as "Third Worldism". In that vision, rightly, the world-wide character of capitalist expansion compels the capitalism/socialism question to be posed in an indirect manner. The major conflicts currently at the forefront of the historical stage (the true stakes of struggles) result from the contradiction between the pressures for globalization (or "transnationalization") imposed by the predominance of capital, and the aspirations of working classes, peoples and nations for some autonomous space. The fiercest of these conflicts (Russia in 1917, China, Viet Nam, Cuba) have led to a "break" from globalization associated with profound social transformations and with national construction. Theorized by Lenin, the concept of the "weakest link" has been associated with the strategy of an alleged "construction of socialism" starting with ruptures in the peripheries of the system. All the questions posed by this strategy obviously remain open : what can or could this "revolutionary break" really lead to? (See *Expansion or Crisis of Capitalism*).

In any case, the reality of globalization implies : (*i*) that any crisis of the capitalist system would be a crisis of the International Division of Labour, thus, especially a North-South crisis ; (*ii*) that the alternative of the day would be "transnationalization or autonomous development" and not directly that "socialism or capitalism" ; (*iii*) that the hope of working classes, of peoples and of nations for autonomy causes historical subjects other than the "working class" to intervene, primarily peoples of the South (therefore, among others, the peasantries).

Our thesis is that this conflict is particularly fierce in the

current period. To the end of the 19th century, there had not been a major conflict between the crystallization of a new bourgeoisie as a ruling national class and its participation in the capitalist International Division of Labour. Since then this contradiction has grown. The bourgeoisies in the South are caught between their "nationalist desires" and their submission to "compradorization." Periods of crisis (as presently) are periods of "recompradorization" in the South, and therefore, of revolts or potential revolutions against the latter. Contradictions in the construction of national automony are by no means limited to the peripheries. In the centre itself the weakest capitalisms are equally threatened in the same manner.

(*c*) The evolution of capitalism in the center defies the "orthodox" (and simplified) theory of class struggles. Working classes have abandoned the project of a classless society and rallied to strategies for the amelioration of their positions within society as a result of centre/periphery polarization. Therefore, the economic struggle of these working classes in the centre can again bring the capitalist system into question only if it dares to go so far as to again bring into question the world system. As to the "new middle classes," whose growth is so closely tied to the dominant positions of the centers in the world system, they are well aware of their privileges (including *vis-a-vis* local working classes) expediently justified in terms of "the legacy of education."

Therefore, the question of socialism is posed here in the centre in new terms, different from those imagined in the 19th century. "Interclassist" movements in favour of a "new model of development" (feminism, the Greens, etc. . .) bear witness to it. These movements can potentially pose anew the question of a popular North-South alliance, since they again bring into question the very content of development on the national and global levels.

(*d*) The current crisis, like its predecessors, is manifested by the "ungovernability of the system." This occurs on

> three levels : (*i*) the periphery's resistance to the exigencies of the logic of transnationalization ; (*ii*) the resistance of working classes in the centre (their economic force over the workplace and their refusal of Fordism) and the resistance of peoples in the centre to the predominant lifestyle (interclassist movements) : (*iii*) the conflict between the strategies of global capital and the national policies of the State. In the absence of a hegemony (that of the United States is in decline) ensuring the functions of a global State, the national States have less and less of a hold over the strategies of capital.

Hence the logic of capital's response to the crisis, necessarily from the "right," comprises a triple offensive : (*a*) The submission of the South by compradorization : witness the end of North-South dialogue and the crystallization of a Northern bloc confronting the South (see, for example, the Sixth U.N. Conference on Trade and Development UNCTAD in Belgrade in June 1983) ; (*b*) the undermining of the worker's movement in the centre by unemployment, and of the interclassist movement by inflation (winning over the middle classes to the right); (*c*) the submission to the American counter-offensive which seeks to re-establish the hegemony of the United States and the consequent instrumentalization of the IMF, which represents the embryo of a supranational State.

II

The offensive against the South must, in our opinion, be placed at the centre of an analysis of the conflicts opened by the crisis.

The relatively favourable conditions which arose out of capitalism's world-wide expansion from 1945 to 1970 occasionally had allowed Third World bourgeoisies to force some concessions from the imperialist system. The radical wing of these borugeoisies (often operating from State positions), emerging from a strong national and popular liberation movement, had frequently established and legitimized its national leadership by social reforms (especially agrarian), development of a public

sector and institution of an accelerated industrialization policy. Soviet alliance at times contributed to widening the margin of manoeuvre for these new bourgeoisies. However, these national policies (Nasser provided perhaps the strongest model) depended upon class structures, internal alliances and ideologies that precluded consideration of breaking out (or "delinking") from the International Division of Labour (they only sought accelerated import-substitution industrialization, thereby guaranteeing greater consumption for the privileged classes). Nor did they consider a "popular strategy" (an industrialization supporting the priority of agricultural development, which requires town-country relations based upon mutual support and not exploitation.). Such a strategy would have implied a worker and peasant alliance as the basis of the political system.

The crisis reveals the fragility of these national bourgeois development attempts in economic terms (deficits, external debt) and in political terms (disaffection of popular supporter). The current period of crisis thus creates favourable conditions for destroying the "impossible" aspirations of bourgeoisies in the South and forces them to capitulate. All means are deployed to this end : financial (by the expedient of the IMF and the Club of Ten), economic (rejection of the New International Economic Order's claims), and even military (Zionist expansion, destabilizing South African interventions, etc. . .). The West en bloc has so far followed the United States in these pressures, notwithstanding some verbal disclaimers here and there.

The success of this global offensive against the South would lead to the "recompradorizing', of bourgeoisies in the South and would inscribe their further growth within the strict logic of monopoly capital's strategies for transnationalization.

This vast ebb and flow of the South's national project testifies, in our opinion, to the pertinence of the kernel of Leninist and Maoist theses : National liberation is indeed always on the agenda and cannot be accomplished by the bourgeoisie in the periphery ; popular alliances ("worker and peasant") are here the sole means of surmounting social contradictions increasingly sharpened by capitalism's development. National and popular objectives imply "delinking" thus, such a revolution can initiate a "socialist transition." At

least one can say that this revolution constitutes a dimension of the socialist problematic. Indeed, it is the only effective dimension so long as the prospect for "another development" at national and global levels has not really been initiated in the developed centre of the system.

In our opinion the historical limits of Leninism and Maoism are not situated within the logical structure of these theses. Rather, they are situated elsewhere : in the realms of State-Party-Masses relations and in their extension to the problematic of Plan-Market-Social Management-Democracy. In the current crisis it is absolutely out of the question for bourgeoisies in the South to take up the initiative in a new radical way.

Moreover, in the preceding period of expansion Southern bourgeoisies used the autonomous space open to them to attempt to inscribe themselves further into the world system, though sometimes to the detriment of their weakest partners. Examples of this include local expansionisms and intra-Third World Wars (even through partially inscribed within conflicts between the Superpowers) ; attempts at insertion into the global financial system such as OPEC ; and attempts to accelerate dependent industrialization (newly-industrialized countries). All this is consistent with the bourgeois class nature of the hegemonic bloc in these countries.

Hard pressed in the crisis, the powers in the South have only verbal responses—such as the intensification of South-South relations—which are difficult to put into practice within the framework of the States in question. Alternatively, they believe themselves able to call upon the USSR ; although this call may be largely ineffective. In short term the offensive aiming at recompradorization is thus destined to score some points. But . . . the response, primarily in the form of a violent popular rejection, also gains in likelihood (as proven by events in Iran, Nicaragua, El Salvador, Ethiopia, Ghana, etc.) Will this "populist" response which is mobilized around ideologies of rejection (Islam for example) go further, allowing for the crystallization of a new national popular State ? The question is, of course, open.

This response will depend, in part at least, upon the response given to another important question : can external forces (a

leftist Europe for example) break with the offensive against the South, play the role of "non-alignment" (thus of real and equal opposition to the Superpowers), and support the national and popular outcome in the South ?

III

Is the working class of developed capitalist countries condemned to defeat, that is, to accepting "restructuring" only as a function of the exigencies of capital's profitability ?

This outcome appears inevitable to us if one accepts the sacrosanct "international competitiveness" as the criterion of last resort for immediate choices. To avoid bowing to the exigencies of capital's strategy, we must associate immediate choices to two complementary perspectives : (*a*) opting in favour of "another development path" as formulated, although embryonically, by diverse interclassist movements such as the "Greens" in Germany, by discourse about expansion of the "noncommodity" sector, etc. ; and (*b*) opting in favour of supporting a popular national project in the South as formulated, for example, by the Greek Pasok.

The progressive crystallization of such a different development path could engender the extension of social property (the programme of Swedish social democracy). Of course, this evolution remains yet to be invented and must find its own solutions to the real questions which it poses, especially with regard to relations between the State and democratic socialization. Obviously, the beginning of such an evolution implies the abandonment of neo-Keynesian illusions, just as it implies a counter-offensive against the ideology of the right which is in vogue . . .).

Defeat is equally inevitable if one accepts the "Atlanticist" rallying calls which imply subordinating North-South relations and intra-West relations to East-West relations. Does the USSR constitute the primary menace today ? Why does it not use its supposed military superiority to attack the West today instead of waiting and losing that superiority ? Is this not simply a propaganda campaign aiming to make re-establishment of United States hegemony acceptable ? The Atlanticist rallying call empties the revision of North-South relations of all content, as

shown by the astonishing retreat in European attitude on the question of Palestine and Africa (support of Zaire and South Africa, etc . . .).

IV

The offensive against the East is really a disguised offensive against the South and against the working classes in the West ; an attempt to re-establish American hegemony.

Certainly, the East is not "socialist. "Nor is it incapable of becoming potentially expansionist, or even of choosing the path of adventure in order to surmount its internal crisis which is deep and specific. That crisis will not be surmounted by a progressive integration of the East into the world system. This choice encounters important obstacles, for example, the threat of losing control by a too extensive integration. The East will thus pull back each time it feels itself threatened. Such is the lesson of the failure of Khruschchev's illusions, followed by the return of Brezhnev, etc. In any case, how peoples in the East might surmount this impasse is not our question here.

The question to debate is thus neither the nature of the USSR, nor its prospects. The issue is rather the empirical question of tactical equilibrium on the military plane. The current offensive against the East is only the mask of Reagan's offensive against peoples of the Third world and workers of the Occident. The bet that by ceding to American demands one could better negotiate economic consecessions has proven itself to be a delusion. Just the opposite has occurred : Atlanticist rallying reduced the space of economic autonomy. Thus, three alternative futures for East-West relations stand out.

First there is the Atlanticist rallying of Europe, accepting to submit itself to the agressive policy of the U.S. the war, which is possible in that perspective, could well start in Europe.

Second, and on the opposite there is the possibility of a deepening of the Europe—United States divergence with regard to East-West relations. Wallerstein envisages here the possible consolidation of a Paris-Bonn-Moscow axis, against a Washington-Tokyo-Peking axis. This is a possibility which was raised some years ago ; its tenacity is revealed by the "Soviet

gas" affair. Perhaps this is even the most probable option if certain currents on the right were to prevail in Europe.

These currents are more realistic and less "ideologically" prejudged with respect to the USSR. On the opposite certain currents in the European left, which are precisely victims of ideological prejudices could fall into Reagan's trap. In any case, in this perspective, North-South relations are seen from a strictly "imperialist" point of view, in which Europe-USA competition is maximized (the "Gaullist" vision). By contrast. the Atlanticist currents—of right and left—envisage a sharing of the tasks between the USA and Europe (especially in Africa). *Third,* there is the possibility of a leftist or anyway another European politics which would be simultaneously anti-hegemonist (directed against both hegemonic projects), non-Atlanticist and Third Worldist. In one word, the third possibility comprises a rallying of "non-alignment."

This option would reduce the risks of war, and would reinforce the autonomous space of workers in the West and of peoples in the South. It might also open room for some sort of "reformist transformation" in the East, which is closed off in any case by the other policies. But obviously this choice, in the visible future, is excluded. A whimsical Europe does not appear ready to consider this choice. The European left does not always understand that one cannot want the privileges of imperialist domination and at the same time refuse the restructuring which its expansion imposes. China had chosen this path from 1960 to 1970, probably the wisest and most consistent with the long term interests of peoples and of socialism. Isolated in its struggle "against the two hegemonisms," it relinquished active non-alignment. The responsibility of Europe and of its left, which in the end preferred to rally with Reagan's Atlanticism, is important here.

Note To lighten the text, we have avoided numerous references which can be found in Amin, Arrighi, Frank, and Wallerstein, Dynamics of Global Crisis, Monthly Press, New York 1982. Also see *Le Marxisme en Afrique et en Asle,* Le Socialisme dans le Monde Belgrade No. 33, 1983 ; and "Expansion or Crisis of Capitalism" *The Scandnavian Journal for Developing Countries,* June 1983 and *The Third World Quarterly,* April 1983.

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